

# NOMINATION OF JOHN ANDREW KOSKINEN

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Y 4. G 74/9: S. HRG. 103-854

Nomination of John Andrew Koskinen,...

## HEARING

BEFORE THE

COMMITTEE ON

GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

NOMINATION OF JOHN ANDREW KOSKINEN, TO BE DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

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JUNE 30, 1994

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Printed for the use of the Committee on Governmental Affairs



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# **NOMINATION OF JOHN ANDREW KOSKINEN, TO BE DEPUTY DIRECTOR FOR MANAGE- MENT, OFFICE OF MANAGEMENT AND BUDGET**

**THURSDAY, JUNE 30, 1994**

U.S. SENATE,  
COMMITTEE ON GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Committee met, pursuant to notice, at 9:38 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senator Glenn.

Staff present: Doris Clanton; Mark Goldstein; Deborah Cohen; Molly Boyle; David Plocher (Senator Glenn); Susanne Marshall and John Mercer (Senator Roth); Linda Gustitis (Senator Levin); Paulina Collins (Senator Cohen); and John Wagster (Senator Sasser).

## **OPENING STATEMENT OF CHAIRMAN GLENN**

Chairman GLENN. The hearing will be in order.

Good morning. Today the Committee on Governmental Affairs meets to consider the nomination of John Koskinen to be the Deputy Director for Management of the Office of Management and Budget.

This is, without doubt, an exciting but a critical time for the management of the Federal Government—I stress, the management of the Federal Government. The American people are demanding that we overhaul the way Washington spends its tax dollars and delivers public services.

In my opinion, after many years of poor progress, we are beginning to see some very hopeful signs about the state of the government's management. I think I can speak for the whole Committee, and certainly for my friend from Delaware, the ranking Republican, Senator Roth, when I say that on the Governmental Affairs Committee we have tried very hard to make our government more efficient and more effective.

We wrote the Inspector General Act, way back, long before I was ever Chairman of this Committee, in 1980, I believe it was, or 1979-78; and then in 1988 wrote amendments to it which put 60 IGs in Federal agencies to be accountable not just to agencies but also to the committees in Congress, and that's something different.

We wrote that in very intentionally, that they were to report not only to their agency heads but also to the appropriate committees of jurisdiction here in the Congress, and that was something dif-

ferent. We followed that in the Chief Financial Officer Act, also, which has been in effect now for about 4 years.

The most recent statistics indicate that the IGs are in the process of returning many billions of dollars to the Treasury, and each year refer for prosecution thousands of people who try to bilk the government in some fashion. I think year before last the figure on successfully prosecuted cases that the IGs had referred to Justice were 2,966, if I recall the figure correctly, and almost a billion dollars in that 1 year was returns to the Treasury because of the action of the IGs. Just knowing the IGs are out there, how many other cases of fraud and so on we prevented, I don't know, but I think the IGs are performing a very valuable function.

We wrote the Chief Financial Officer Act, which for the first time ever required agencies to produce and audit annual financial statements; hard to believe that in the Federal Government we had no requirement that agencies at the end of every year finally come down to an audit of the books to determine where the money went, was it well spent, was it not?

Every year, all that seemed to happen was, every agency or department put in for more money and added a little inflation factor and a little extra to compensate for what they knew OMB would cut off in that process, and that's the way we did our budgeting. Now we are beginning for the first time to get auditable figures.

The discipline of this process is helping the government to reduce fraud and waste. It is putting agencies on the road to improved financial systems, and is helping the government to be a wiser steward of its resources.

There are other laws: the Financial Integrity Act; the Paperwork Reduction Act, which we are in the process of trying to work out reauthorization right now; the Single Audit Act, through which this Committee has sought, along with successive administrations, to improve the operations of government and make them more accountable to taxpayers.

We have made some progress, as I have just outlined, but Mr. Koskinen should not be worried about getting bored, because the management problems of Uncle Sam are still large and very stubborn, and improving the financial management of the Defense Department alone would be more than one person should be required to take on.

This Committee has long been concerned about the M in OMB, and I have said at hearings before, too often in the past it has stood for moribund rather than for management. I think the new OMB 2000 plan, which integrates management and budget functions into resource management offices, will have a positive influence so long as management issues and the DDM truly have a seat at the table that budget always has had the biggest seat at before.

This will occur only if the leadership of OMB makes it happen. Now one of the unfortunate things that has happened is that the leadership at OMB seems to keep changing on us. I have a lot of respect for Leon Panetta and Alice Rivlin, but it seems that political appointees at OMB barely get a chance to get their chairs warm before they get the signal to go sit in a new one someplace. We had Phil Lader come into the position over there, and then they decided



they had higher priorities off someplace else and so he was moved on.

So I am pleased that the President nominated John Koskinen to be Deputy Director for Management of OMB. I might say, Mr. Koskinen, that I have said to Leon Panetta and to Dick Darman and others that have been at OMB, I think that office of OMB—and I don't exaggerate my feelings on this—I think it is the second most powerful spot in government. I don't exaggerate that. The President may set the policies and so on, but I think that office is second in power only to the presidential office itself, in that that is the spot where everything comes together.

It is where all the requests of government come in. It is where they have to be changed, modified, the priorities of government set according to the President's expressed policies, and so I think that it does more to determine what happens to the American people than any spot except the Oval Office itself. That is the importance I attach to that office.

The M function of OMB that you are going into, in particular, is how we manage these things. There is nothing that can be much more important than that. I am not blowing a lot of hot air your direction. I have said this before in hearings, long before I ever met you or knew you, but I believe it is fully that important.

Mr. Koskinen was recently president of the Palmieri Company, an asset management firm that helps companies and other institutions restructure and diversify. He has had considerable experience in the ways of Washington; served as an administrative assistant to my very good friend, former Senator Abe Ribicoff, who of course was a former Chairman of this Committee before he decided to retire.

Mr. Koskinen is a graduate of Duke University, Yale Law School; did postgraduate work at Cambridge University in England. Perhaps it was England where he picked up his interest in soccer, for Mr. Koskinen is the Chairman of the Washington, DC Host Committee for the 1994 World Cup Soccer Tournament. Anyone that wants tickets, just see Mr. Koskinen after the hearing this morning.

He is introduced today by the District of Columbia Delegate, Eleanor Holmes Norton—we are glad to welcome her this morning—and is joined, I understand, by his wife Patricia, and their two children, Cheryl and Jeffrey. Are you here? Good, fine. Glad to welcome you all this morning.

And I hope, Mr. Koskinen, you will—well, my notes say that you will introduce them. I just did. Thank you, and we welcome them this morning.

I must mention that Committee rules require an inquiry be conducted into the experience, qualifications, suitability, and integrity of nominees. The Committee has received from the nominee financial statements as well as detailed information on his educational background, employment record, and professional achievements.

In addition, the nominee has responded in writing to prehearing questions submitted by the Committee concerning the duties and responsibilities of the position to which he has been nominated. Copies of the biographical information and prehearing responses will be placed in the record as part of this hearing, and are avail-

able upon request at the Committee office for others that wish to look at them. The financial statements are available for inspection by the public in the Committee office, as is customary with our rules.

Committee investigators have reviewed the nominee's biographical and financial information. In addition, the staff have examined the financial disclosure reports submitted by the Office of Government Ethics and the OMB Ethics Officer to ensure that no conflicts of interest are present. Those letters will also be included in the hearing record this morning.

I, as Committee Chairman, and my distinguished colleague Senator Roth, the ranking Minority Member, have reviewed the FBI background investigation reports on the nominee and found nothing to bring to the attention of the other Committee members. Our Committee rules require that the Chairman and the ranking Minority Member review the FBI reports. We, in turn, if we see something we think should be brought to the other Committee members' attention, we do so. Otherwise, we are the ones that review the FBI reports, we alone.

That said, if confirmed, I look forward very much, Mr. Koskinen, to working with you. Ms. Norton, we look forward to any introduction you wish to make.

#### **TESTIMONY OF ELEANOR HOLMES NORTON, DELEGATE TO CONGRESS FROM THE DISTRICT OF COLUMBIA**

Ms. NORTON. Thank you, Mr. Chairman.

Mr Chairman, it is a great personal pleasure for me to introduce to you and strongly recommend to you, John Koskinen, to be Deputy Director for Management of the Office of Management and Budget. I can see that Washingtonians are especially proud this morning that there will be two distinguished Washingtonians at the helm of OMB: Alice Rivlin, the new Director, and now John Koskinen as Deputy Director for Management.

You have mentioned Mr. Koskinen's portfolio of accomplishments. They are impressive, especially his work as president of the Palmieri Company. Mr. Koskinen has managed the structuring and the disposition of major assets in the private sector.

He comes to the OMB at a critical moment, when the administration is engaged in reinventing government itself. The success that John Koskinen has had in large divestment and restructuring projects will leave him, we believe, quite undaunted by the complexities associated with his management work at OMB.

He is a magna cum laude, Phi Beta Kappa graduate of Duke; a cum laude graduate of Yale Law School, with postgraduate work in international law at Cambridge.

John Koskinen, as you have indicated, Mr. Chairman, demonstrates that he is a real Washingtonian by acting as Chair of the Washington, DC Host Committee for the 1994 World Cup, and Chairman of the Washington 1996 Olympic Soccer Committee. This is regarded as a great service to our community, to say the very least.

We can think of no better way for John Koskinen to crown his formidable professional qualifications than his home-town work on soccer, and I am especially pleased to recommend John Koskinen

to you, to be considered for Deputy Director for Management of the Office of Management and Budget.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you very much.

Mr. Koskinen, we are required to put you under oath before I ask some of the required questions, and so if you would stand, we would appreciate it.

Do you swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KOSKINEN. I do.

Ms. NORTON. May I be excused, Mr. Chairman?

Chairman GLENN. Fine.

There are several questions we are required to ask by Committee rules and Senate rules, and I will run through those now. They are very short.

Is there anything that you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. KOSKINEN. No. No, in general, although I have noted for the Committee that I am Chairman of the Board of Trustees at Duke University, and have agreed with the White House Government Ethics Office that I will recuse myself from any item that comes before OMB that would be of financial benefit to Duke, and I also will engage in no fundraising or investment activities on behalf of Duke.

Chairman GLENN. Fine. Further, do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Mr. KOSKINEN. No.

Chairman GLENN. If confirmed, do you agree, without reservation, to appear and to testify before any duly constituted committee of the Congress?

Mr. KOSKINEN. I do.

Chairman GLENN. Good, fine.

Do you have any opening statement you wish to make, Mr. Koskinen?

# **TESTIMONY OF JOHN ANDREW KOSKINEN, NOMINATED TO BE DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET**

Mr. KOSKINEN. Thank you, Mr. Chairman. Just a few comments.

First, I would like to express my appreciation to you and the other members of the Committee, and in particular to your staff on both sides of the aisle, who have gone out of their way to accommodate me and OMB in terms of expediting the consideration of my nomination. The Committee has been as effective as we could have asked. It is a great example of good management, and I personally appreciate it very much.

I am honored to appear before you this morning as President Clinton's nominee to be Deputy Director for Management of the Office of Management and Budget. The interest this Committee has had these past several years, that the Chairman has already described in some detail, in improving the management of the Fed-

eral Government, is now matched by this administration's commitment to reinventing the way the government performs its business.

It is now clear that whether you want bigger government or smaller government, everyone wants better government. The challenge before us is to take the initiatives sponsored by this Committee, and the recommendations of the administration's National Performance Review, and implement them.

I think I can be helpful in this task. I have worked, as the Chairman has noted, in both the public and private sector, both for the City of New York, representing it and Mayor Lindsay in Washington here on the Hill; and as you have noted, working for the past 21 years restructuring large, troubled companies surrounded by various constituencies, each with their own interests, concerns and goals, and each actively monitoring and occasionally challenging our activities.

As a friend of mine said, it almost seems that I have been training for 30 years for this position. I am excited about becoming Deputy Director for Management of OMB, and look forward to working with you and your staff to help restore public confidence in our government as a result of its improved performance.

I would be pleased to respond to any questions you might have, Mr. Chairman.

Chairman GLENN. Good. Thank you very much.

I can't stress enough, Mr. Koskinen, how important I think this role is of the Deputy Director for Management. As I said before, I don't say that just because you happen to be here and that is the subject of our hearing this morning. It is something we have had a long track record on, that I have had a long track record on, sponsoring, working with your predecessors over there, and with the Directors of OMB.

We created this Deputy Director for Management, when we created that job in the CFO Act, we were looking to really give some teeth to how the government deals with its management problems, instead of just too often, we go through hearing after hearing, we point out all the problems, and then nothing happens. You would think that once we had pointed out the problems, why, something would get done. It doesn't seem to.

So I would have to say, in all candor, that overall management reform, in spite of the work we have done, has been very, very slow in coming. We now have OMB 2000, as it is called, which alters the institutional framework of OMB.

I guess my first question would be if you have looked into that enough to know how you will ensure that management issues not only get heard but get acted upon?

Mr. KOSKINEN. Well, I think, as you noted earlier, OMB 2000 has great potential for increasing the visibility and the leverage of management issues in the government by, in effect, integrating management issues into the budget process. So, having spent some time talking both to the senior executives at OMB and working very closely, in preparing for these hearings, with Alice Rivlin who will now be Director, I am confident that there is a true commitment at OMB to in fact making management an integral part of the budget process.

As I have noted in my earlier conversations with the staff, one of my early goals will be to in fact structure a management program for the agency that will be derived and based on the consensus of the senior leadership at OMB as to what our major management problems are and how we are going to actually accomplish the reforms that are needed. And so I would hope that over the next 2 years we will actually be able to keep you advised about not only where we are going but how we are doing in terms of getting there.

Chairman GLENN. I am going to sound like my ranking Minority Member, Senator Roth, in my next comment here, but do you plan in that management plan to have performance measurements? Senator Roth is continually pointing out to us the need for performance measurements, and I agree with him. I am cosponsor of some of the things that he has proposed.

We can put out these things of, yes, we are going to have better management. Do you have any ideas as to how we are going to measure performance?

Mr. KOSKINEN. I am committed to that. I think if we are going to, at OMB and in this Committee and in general in the government, ask people to perform better and to meet performance measures, you have to start at the top. So it does seem to me it is appropriate, particularly in the management areas, to have OMB develop a set of goals, a set of measurements, and then a set of standards, and report against those standards.

I would expect, in the first few weeks of my tenure, to develop that kind of a program, those kinds of measurements and standards, and to review those with the Committee and your staff, because obviously what it means is that we have to set priorities. We have to decide what are the most significant tasks to undertake, and that means that there are going to be some things that are important to do that we may not be able to address immediately.

However, my experience is and my concern about this position is that there are so many targets of opportunity, that if we spread our resources too thin, if we don't have a clear, established set of priorities, if we don't have a set of standards we are trying to meet, we can continue to talk a lot about management reform, as you note, but actually not accomplish as much as we have the potential to.

Chairman GLENN. You are going to be, in effect, the Comptroller of the United States. You will be the one that gives the other CFOs, the chief financial officers in all the agencies and departments, their marching orders. You are going to set the standards for them.

Can you tell us what you plan in that area, because they literally are going to be your eyes and ears out there, monitoring and working on what is going on, day in, day out. You can't possibly do all that yourself. Do you have any ideas you can give us today as to how you plan to direct all this army of people out there that can literally change government, if you direct them properly?

Mr. KOSKINEN. Well, that is correct. In fact, again, it is important to recognize that no matter how smart or how good our ideas are, if we try to impose them from the top alone and try to implement them only from OMB, we will never get much done. The only

way we will ever get true management reform is in the day-to-day operations of the agencies and the programs.

The CFO Act you referred to earlier, that this Committee played a major role in establishing, calls for a CFO Council, and I have been delighted to learn that earlier this year the CFOs themselves, on their own, organized a retreat to try to determine what their goals ought to be, how they ought to function, how they could effectively, as a group, further the improvement of financial management and measurement in the government.

One of the things I am most excited about is working with the CFO Council to design with them programs not only for setting policies and standards, but for training and for measurement and for improvement in each individual agency's and program's financial statements. So I think we have there a vehicle created by this Committee that will allow us to reach out into programs on a day-to-day basis and, as you say, marshal an army as opposed to having a few generals who are issuing orders.

Chairman GLENN. One of the biggest problem areas is over in Department of Defense. You have a new Secretary of Defense, Bill Perry, and his deputy, Mr. Deutsch, who are committed to revising the way that they do their work.

We have passed new procurement legislation here. We hope that helps. The House just passed their version. We now have to go to conference with them and work out the final bill before we send it to the President. It is a mammoth overhaul of how we do our business in government, and they are committed to making that work.

We have a former member of the Armed Services Committee staff, John Hamre, who is now over there as comptroller, and he is instituting changes. He has come and sat in on some of our hearings here in the past, just before he went over there, and is taking a lot of action in that area.

They have such things that we turned up on this Committee as, I think it was \$41 billion in unmatched accounts, where we just paid them out, and we asked justification of why the money was paid but we don't really know, can't find the paperwork for it, \$41 billion floating around.

We had an instance the Committee turned up a couple of years ago here, or about a year and a half ago, that some of the contractors had sent back in some \$700 million of money that they said, "We never billed the government for this, so we are returning the money," \$700 million. So they went through the accounts again over there and found out there was another \$700 million they had to go out and ask people to return, for which nobody was owed—\$1.4 billion just floating around out there, because it never should have been sent out to begin with.

So there are things like that going on, and while we have dealt with the Defense Department because we thought that was the highest risk area and we have given a lot of attention to that, I am sure a lot of the same things are going on in other areas.

IRS, there were some other questions about that. We have \$18.7 billion estimated that is collectible, if we just had the people to go out and get it, and yet we see things going on like cutting back on IRS funding at the very time when they are trying to get to automated accounting and their new system so we can better get at

that. And the total amount owed IRS, if I recall right, is something like \$120-some billion, but much of that is owed by bankrupt corporations or bankrupt individuals, but they estimate \$18.7, I think it is, billion that is collectible now if we just went out after it.

Things like that the Committee has turned up, are things that I think you have to give an awful lot of attention to in directing your CFOs and the IGs out there to really get on top of some of these things.

That was more a statement than a question, obviously, but I hope you know where the priorities are over there. We have this high risk list that was put together at this Committee's request.

We started out asking the General Accounting Office to do the high risk list, and they did, and it was sort of to see where the biggest risks in government were, after we had turned up some of the faults. It turned out it was a good idea. We asked the OMB. Mr. Darman was over there at that time, and we asked OMB to come up with a similar high risk list. They did, and they were very similar. They were done independently.

So we have concentrated on those high risk areas, and we have hearings on those. We will have one on, what is it, July 19, I think, we have another hearing on some of the areas of particular interest in the high risk area, so we will be working with you on some of those areas also.

Have you had a chance to look at those high risk lists yet?

Mr. KOSKINEN. I have not reviewed them in detail. I have talked with OMB staff and executives about the process by which the high risk list was both generated and is reviewed, and I think you are right. It deserves the attention it has received thus far, deserves even more attention, although I think what we have to recognize is that it by itself cannot be our only approach, obviously, to management reform, because to a substantial extent you are finding the problems after they have occurred.

Chairman GLENN. Yes.

Mr. KOSKINEN. What we need to do is analyze what we learn from those high risk problems to see what are the systemic reforms we need to implement in areas like the Chief Financial Officers' areas of activities. We need to ensure to the extent we can that we both limit the number of high risk problems that are generated in the future and that we also catch them earlier, so that the magnitude of the problem is smaller and we don't have some of the examples that you have noted.

I think we all understand, even in the most efficient process, we will always have a need for audits, individual audits. We will always have a need to focus on particular systemic weaknesses and controls, but the challenge right now is to ensure that we build off the experience of the high risk list to develop overall systematic reforms to try to eliminate as many of those problems in advance, rather than only responding after the fact.

Chairman GLENN. Well, that was the purpose of the high risk list, to prevent the wrecks before they happen instead of trying to pick up everything that happens after the wreck, as we have tended to do for too long.

I would note that almost two-thirds of the problems on the high risk lists are directly related to financial management, and you

have indicated that you want to work in that area. I think that is the biggest single area, is working on those high risk lists of things so we recoup some of the money that is being misspent in some of those areas and prevent some of these misadventures in Federal financial areas in the future.

I am also concerned that certain major management problems have not made it to the high risk list. One of them I had mentioned, only I haven't mentioned this one directly, but I mentioned IRS, and one of these areas that hasn't gotten high on the list yet but one I think is coming up is electronic filing fraud at IRS, where the detected incidence of fraud has more than doubled in the past year.

Do you have any thoughts on what you can do about that?

Mr. KOSKINEN. We need to review that. As we look at electronic benefit transfer generally, we are going to have the same kinds of questions, and that is, as we move forward, particularly in high tech areas, we have to be very careful that we provide the requisite controls and reviewability and accountability to ensure that we don't have an excess of fraud.

In the IRS area, while I have not specifically spent time with the IRS, one of the problems—and you intimated it earlier—is that we need to make sure that we deploy enough personnel in areas that are fraught with possibilities of fraud to ensure both that we prevent it, but also that we in fact collect, wherever there have been defalcations, as much of that money as we can.

The investment made, much as in the IG offices, is relatively small compared to the returns that can be had. And I know, as we are looking at FTE reductions across the government, one of the things we have to be careful about is that we analyze those as effectively as we do everything else.

Chairman GLENN. Have you made a commitment to the President or made a commitment to anyone in the administration that you will serve out the administration's term of office, or as long as the President asks you to stay in that office?

Mr. KOSKINEN. Yes, I have, and I am delighted to be able to do that, and I appreciate your concern about the turnover in political appointees. I think it looks a little like there is a coup going on and OMB is taking over the White House staff, with both Mr. Panetta and Mr. Lader there.

But in my own personal case, as I noted, I can't imagine another position in government that is more suited to my background and talents and interests. I am delighted and honored to be selected, and have no qualms at all about committing that I will stay as long as the President is interested in having me.

Chairman GLENN. You and I discussed this briefly in my office the other day, but just for the benefit of everyone else here, the reason I asked that question was, I am very concerned that we may have a government that comes in and they are saying, "We are going to have certain policies, we are going to make certain changes," but those changes only occur because the political appointees in government, the ones that are in all the different departments and areas of government, really implement those changes.



Yet, we find such a turnover that I don't see how we ever accomplish anything. For an assessment done by GAO through the 11 years of the Reagan-Bush years, I think it was 1982 up through 1991, it showed that of the political appointees, 30 percent were gone from government in 18 months and 50 percent were gone in 27 months. You cannot implement policy in government if you are churning the top political people that way.

We asked GAO to do an update on it, and they did, and I think they found that currently the average is—and we have made tremendous improvement in this area—clear up to 2.1 years. Big deal. We are up to 2.1 years now for the average for political appointments.

Now that is not a very good track record. People have to, you know, figuring it takes the first 3 or 4 months to find out who you call on the telephone or what you are going to do, and if people decide to leave government, the last couple of months is not going to be very productive, so by the time you chop 4 to 6 months off of those figures, you have a lot of incompetency in government just by the churning of top presidential appointments. So that is the reason I asked the question.

Mr. Koskinen, if confirmed as Deputy Director, and I anticipate you certainly will be, your new position suddenly takes on even more importance than it might otherwise because I believe you will probably be Deputy Director for a while. Is that right? Will you be serving as No. 2 to Alice Rivlin once she is reconfirmed?

Mr. KOSKINEN. I think inevitably I will perform some of those functions, since that position is now vacant, or will be vacant once Dr. Rivlin is confirmed as Director. While that means I will have more things to do, on the other hand I think it will allow us, particularly with Dr. Rivlin's interest in OMB 2000, to ensure that we start off, at least in my tenure, with a full integration of budget issues and management issues. I am, as you can tell by my background, committed to ensuring that we don't lose sight of the M in OMB.

Chairman GLENN. Yes.

Mr. KOSKINEN. I think in some ways, while it is going to mean a little more work, this is a unique opportunity to ensure that we have a true marriage in OMB of these issues.

Chairman GLENN. Have you and Dr. Rivlin discussed this, about how the duties will be split up?

Mr. KOSKINEN. No. We have just begun to analyze it. She is still working out exactly how she wants to have the agency run. She and I have talked about her interest in making sure that I am involved in all of the activities to begin with, so I am comfortable with the situation. I am looking forward to dealing with Dr. Rivlin on a day-to-day basis, because she has a tremendous amount of background and experience.

Chairman GLENN. You have such a heap of things to do over there that I am a little bit concerned about, if these positions go unfilled with a complete staff there for any lengthy period of time, some of these functions of M that we have been so concerned about may once again return to moribund instead of management. I hope that is not the case. I hope that you are not going to be so overloaded over there that you can't really get things underway.

Mr. KOSKINEN. No. I am sensitive to that. Dr. Rivlin is committed to filling the other deputy's position as promptly as she can. She is already reviewing potential candidates, and I think we will find someone who is appropriate to work with us in the Office of the Director.

Chairman GLENN. Has there been any timetable set for filling out the full staff at OMB?

Mr. KOSKINEN. I originally was planning to come here and say there was only one, which is the controller's position, and now there are two. I think that one of the first priorities I have is to work with both the Director as well as the Office of Personnel in the White House to ensure that we promptly fill the controller's position.

I don't know the timetable, but I do know that in fact Dr. Rivlin, when she comes before you herself, will be anxious to expedite the approval of whoever is the nominee to be the Deputy Director at Budget.

Chairman GLENN. Considering the CFO Act is only 4 years old, I think we have made progress in many areas. Most agencies are now producing audited financial statements and they are trying to improve their financial systems, and I think they are starting, at least, to eliminate some of the waste and beginning to save money.

We still have a number of agencies with big problems and lots of bureaucratic barriers in the way. I would add that I believe, once the GAO has started to do their audits, some of these it is estimated may take as long as 6 or 7 years before agencies come down to fully qualified audits being performed that can be verified.

What comments do you have on that? How can we speed that process up? That is an awful long time to be getting our financial house in order.

Mr. KOSKINEN. Well, it is, but of course that is not going to be true across the board. As you would expect, some of the agencies, some of the programs are already in auditable form now, and as GAO reviews them they have produced acceptable—

Chairman GLENN. That is the question, acceptable. All of them have audits now.

Mr. KOSKINEN. Yes. They have to be acceptable—

Chairman GLENN. But they are not acceptable audits by GAO standards, and that is what we are looking for.

Mr. KOSKINEN. I think, again, one of the vehicles for improving our response to this area will be the CFO Council, because we can exchange—and that is what they have already started to do, and I plan to encourage that—success stories. You can use as role models those agencies and those programs that in fact have produced acceptable and clean audits, and go through the process that they went through, and share that experience and information, and to some extent provide a role model. You can also to some extent generate a certain amount of peer group pressure throughout the various agencies and the CFOs to meet the minimum standards.

I think that we ought to be able to certainly beat the 6 to 7 year time frame. However as you understand, starting from ground zero, I think ultimately our goal has to be ensuring, in whatever time frame it takes, that we ultimately reach that goal of acceptable and clean audits from each of the programs in each of the agencies.

Chairman GLENN. Well, peer pressure is one thing, but authority in being able to tell these people, "Here is what we want, we are demanding it, we want to get it," and setting them up without fear of favor or failure, is something that you are going to be responsible for.

Do you think you have the authority to do exactly that? It is one thing to cajole, it is one thing to get groups together, it is one thing to have retreats and say we think we can all sort of move in big, amorphous ways here to do nicer things for government. It is another thing to have the authority where you need to in certain departments, to say, "You have got to do this and that, and I am speaking with authority from OMB." Do you have that authority?

Mr. KOSKINEN. Well, I think I do. This, again, is an example of where the OMB 2000 reorganization, I think, is going to be very helpful, because to the extent that agencies can ignore, almost with impunity, these kinds of issues because there isn't much of a sanction, it is harder to get progress.

On the other hand, to the extent that the agencies increasingly understand that this is going to be one of the questions asked in the budget review process, and that this is going to be one of the bases on which their programs are evaluated, I think we will have substantially more clout in terms of getting their attention and getting their work done and bringing it up to speed.

Chairman GLENN. We have some of the people that have been in the area of management, that have been, by the new plan, are being dispersed into some of the agencies to be, in effect, your representative in some of these agencies. We had some rather lengthy discussions about this when it was first talked about, and I still have questions about it. We discussed this very briefly, I think, the other day.

I would appreciate your comments in that area because—and here is my concern, as I expressed to you the other day—I think there is a very major hazard in doing it that way, because people over working in a certain agency or with a different unit, while they may represent you and may represent the management end of OMB, when they are living day in and day out with desks over there or offices side-by-side with other people with other interests, there may be a tendency to get a little co-opted by the unit that they are working with, whatever it may be.

So I think this is sort of a test. It is a pilot program, as far as I am concerned. I hope we don't have to reverse it one of these days. I know that Leon felt very strongly about this, and we talked about this and they felt this was the way to go. I reluctantly go along, but we want to watch that process and see how it works.

I don't know whether you have gotten into all of this area of management and the organization over there enough yet to really form a solid opinion in that area, and I don't object to them trying to work very closely. They felt this was going to let them work more closely with the people they are supposed to be overseeing, and I hope it works that way.

But when you actually take them out of your organization and put them over there, and they are working cheek-by-jowl with somebody else over there, day in, day out, with desks side-by-side, there is a tendency to—I think you are going to have to watch that

very closely. Do you have any plans on how you are going to do that?

Mr. KOSKINEN. Well, it is a good point. As you know, my theory is, organization plans and reorganization plans don't self-execute. They depend for their success to a substantial extent on the attention and enthusiasm that the leadership has for the reorganization.

I think, left to its own devices, there is some risk that people once transferred will disappear, but I do not view it as losing staff. I actually view this reorganization, particularly now in our present situation at OMB, as if in fact, I am gaining staff.

I have already met on a briefing basis with the program area directors, the RMO heads, about the importance from the standpoint of the agency for them to begin to define a set of priorities, of what they view as their basic management problems in the programs they are working on, and how we can deploy resources to deal with those—resources within the RMOs as well as resources in the statutory offices. They are very enthusiastic about this. I think as they begin to understand and the agency begins to look at an overall management program, you will have a coordinated, concerted attack on the problems rather than a fragmented one.

In fact, I think, that having management always viewed as something off to the side will in fact mean that you will never achieve major management change. People have to understand, and I think the RMOs are beginning to, that management grows out of program operations, and that the most important and effective way to identify problems and to solve them is in fact to find them through the operations of the programs, and to have program managers and budget offers become sensitive to management issues.

Most people don't think in management terms, but if you ask them, "What are your problems? What are the areas of concern to you?" they have a whole list. They just never thought of them before as management problems.

I think one of my major tasks is to be the catalyst across the operations of OMB to bring the agency together, looking at the highest priority management issues and devoting the resources necessary, whether they are in an RMO or in a statutory office. But most importantly, as we discussed earlier, the primary resources we are going to have to draw upon are going to be in the agencies themselves, so that we are going to do two things.

One is, we are going to organize ourselves better at OMB to identify both the problems and the policies for solving them. However, we also have to become, as an agency, more of a catalyst to energize the agencies and the program officers in the field to respond to the identification of those problems and those priorities.

Chairman GLENN. We have some concern that OMB may not be doing all it can to help support the agency CFOs. Some of them complained that they seem to be. We have had some discussion about the bureaucratic fights in their agencies to gain the authority that was envisioned by the CFO Act. In some cases, organization plans were being held up. Some CFOs were apparently being sort of semi-isolated or ignored by the agencies that really don't want to see much change. There is always resistance to change in any bureaucracy.

How will you take action to support CFOs in these organizational problems? I think that is very important.

Mr. KOSKINEN. I think it is, too. I think OMB has a history of working in that regard. The Office of Federal Financial Management at OMB has been very vigorous in working with the agencies.

Again, not to keep sounding the same theme, but I think we will only elevate the significance and the importance of the CFO offices and their activities to the extent we can get Cabinet Secretaries and OMB senior executives to understand the significance of and importance of financial data collection, financial management, financial statements and audited financial statements.

To some extent during the last 4 or 5 years as this system has started, it began as an adjunct, some separate operation done in response to statutory mandates, without a clear understanding of the significance of that undertaking for program management and greater efficiency.

I think we have in effect a bit of a sales job on our hands here, with the clout as it were of the budget review process, but I think that we are well on our way. In some of the agencies we have wonderful partnerships going on with the financial offices and the program people as they move forward, and I think we again need to use those as examples of what we are expecting all of the agencies ultimately to produce.

Chairman GLENN. Good people are more important than good organizations. I think we can run a good government. If we just had the top caliber people, they would do the job. Putting up the right organization of boxes with poor people in the boxes, doesn't mean the boxes are going to work.

I am very concerned about how we get good people into government in some of these positions. OMB approved the request by the Agency for International Development, AID, to make its career CFO appointment into a political appointment.

Now maybe that is good. I don't know, but I think we need to move very cautiously in this area. I pointed out a little while ago what happens with the political turnover in town. It is 2.1 years average now, and that is an improvement over what I said before, where 50 percent were gone in 27 months. But that leads to instability, and we need less of that in government, not more.

Do you have any thoughts on what you will recommend as to shifts in different agencies or departments from career CFOs to political CFOs? That apparently is already being done in this one instance I mentioned. Are we going to see other career CFOs attempt to change, that we are going to try and change their status also?

Mr. KOSKINEN. Well, as you know, I think the CFOs are almost split 50-50 as to which are career and which are presidential. In that particular case I understand that the Administrator, Mr. Atwood, in his overall restructuring of the AID program, made this proposal, which was considered at some great length, as being integral to the restructuring and reorganization that he is trying to accomplish at AID, which has had a series of very fundamental management problems.

I think the final decision was made that, to the extent that he felt as strongly as he did and had as many cogent arguments as

he did, he ought to be allowed to proceed. I think there is no intention that that will be a precedent as a general matter.

Going to your more general point, I think we clearly have had in the past a problem in attracting the best people to government employment. When I first came to Washington, working in the Federal Government was viewed as an honorable thing to do, as one of the most desirable careers you could have, and certainly back into the fifties that was true. It was a profession that attracted very bright and capable people.

By the mid to late seventies, politicians on both sides ran against Washington. The easiest thing to run against were "pointy-headed bureaucrats" or bureaucracy, or people who were not interested in performing effectively. That had a very deleterious effect, I think, through the eighties, in terms of our ability to attract not only young people but career people and even political appointees.

I think a major change is taking place. This Committee has led the way in terms of trying to make government service more attractive by making positions more effective. I think we now have the potential over the next 5 to 10 years to restore the luster to government service. I think we all have an obligation to do that for the good of the government, because I think you are right: Unless we can attract the very best people, the best organization plans in the world will come to naught.

Chairman GLENN. One major system that was being worked on over at the Pentagon, we thought had great potential and could possibly be used as a role model for spreading similar systems throughout government, was what is called the CIM system, C-I-M, Corporate Information Management Initiative.

I don't know whether you have had a chance to look at that or not, but recently at my request the GAO issued two reports on CIM, showing that this multibillion integration and reengineering effort isn't quite living up to our expectations. It has had an awful lot of problems, but yet it is critical to logistics.

They have had horrible inventory problems, knowing just what they have and where it is and what is available. To make up for not knowing, we tend to order more every year, because whoever is responsible for whatever widget  $x$  is over there isn't going to get caught short on his or her watch, and so they order more every year. It goes through just because the inventory management is so poor, we don't know where the widget  $x$ 's are that we already procured earlier.

We have had case after case after case. We have had hearings in which we detailed these things, and there is literally billions upon billions of dollars out there, many tens of billions of dollars, floating around because of lack of inventory management. CIM was supposed to correct a lot of that, not only the logistics but the financial management and just about everything they do. It was going to give a real handle on information management at the Pentagon.

Have you had a chance to look into that? What do you think of it? Do you think it is salvageable? Should we be moving ahead with it over at the Pentagon? Do you think it is transferable into other areas of government, as it is now outlined?

Mr. KOSKINEN. I have not had a chance to look at that in detail, although it clearly is an area that will be a high priority for us. You earlier mentioned, and I think it is appropriate, if you look at the high-risk lists, a substantial majority of them have financial management weaknesses that generated the difficulty.

In some of the other high-risk areas that don't have financial management risks, you will find that there is a significant need for better management information and information systems throughout the government. Of concern is that on some of the major undertakings we have had problems that sound consistent with the CIM problem, which is in terms of implementation of those systems.

I think we need to make sure that, in terms of our technology policy and in terms of our acquisitions, that we clearly define in advance exactly what we are looking for, spend whatever time it takes to make that clear, and then monitor the implementation and effectiveness of those systems. There is a tendency, in the private sector as well as in the government, to basically say we are going to buy a new system without anybody really understanding what that system is supposed to do, what it is supposed to look like, and how it is supposed to function.

I am not a "techie," but I have seen enough failed system implementations to understand that success doesn't happen automatically. It is much like reorganizations. Just "buying a system" isn't the answer, but on the other hand, there is no way to avoid going forward in these areas, because if we are ever going to be more effective and function better with fewer people, it is going to have to be as a result of substantially better management information and financial information.

Chairman GLENN. I talked about the tool you have there in the form of the CFO legislation. The CFOs are responsible for not only reporting to their own agency and department heads, but also to appropriate committees of the Congress, committees of jurisdiction.

The other big tool that you have, and you have got one in one hand and one in the other, the other is the IGs. They really are—the IGs haven't been perfect, but I think they have certainly done a job beyond anything we could have expected at the outset of the instigation of the first dozen IGs in government some 14 years ago.

We expanded that. I think they are now in 61 different agencies and departments of government, as I mentioned earlier, and they report in both directions, to their agency heads and to us up here. They also are supposed to have a very independent role. That doesn't mean it always has to be confrontational, but it has to be independent, where they can speak without fear or favor.

Now the National Performance Review recommended somewhat of a new direction for inspector generals which was set forth in the vision statement for IGs last year. I have, I personally have no question with the IGs operating in an advisory role to their agency and department heads. I think that is fine. They are looking into details of the operation, and they should do that.

I think it makes a more smoothly operating government to do that, but not at the expense of their statutory independence, and not at the expense of doing hard, tough internal investigations. They have to be free to do that, and if we sort of co-opt them and put them into much more of sort of an advisory role, I think we

start down the road toward defeating much of the good the IGs have been able to do and much of their potential for the future.

I will be outspoken and blunt on why I think some of this happened. I think when the National Performance Review was underway, we had a lot of good people involved, but a lot of the middle management people were called up to see how does this work down in the ranks. Those were the very people who came up and recommended sort of watering down the IG role, as I see it, because they were they people the IGs had been looking over their shoulder, people whose shoulders had been looked over by the IGs, and they didn't like that much. Yet that is the very role the IGs are to perform.

So I think if we start watering down the IGs, we start down a road toward losing their effectiveness that I think has been excellent so far. That is more a statement, once again, than a question, but I would hope that as you get over there, you look into this.

Now you had some indications of some views on this in some of your prehearing questions. I guess I should have asked you the question first and gotten your views before I gave you my own views on it, but I would appreciate your views on how you see the role of the IGs.

Mr. KOSKINEN. Well, I think you are correct. The IGs have performed a very valuable and valid function in the past, and I think it is important for them, like any internal audit function, to be independent of the day-to-day operations of the agency and the program officers.

I think what is intended by the National Performance Review recommendation is not that we undercut or eliminate or even defuse the responsibility and the independence of the inspector generals, but that we expand, as they go through their audits, their awareness, and encourage their awareness of systemic problems. Not only should the IGs be vigorously pursuing fraud and theft and waste, but as they do that they should be sensitive to general areas of control weaknesses, poor financial reporting or accounting, that produce high risk area and include those in their recommendations.

Thus, in addition to simply dealing with and surfacing a major weakness, to the extent that it comes to their attention, the IGs should also be focused on providing some input and guidance as to what suggestions they might have as to how this could be avoided in the future. In a normal internal audit function, that is a function of the auditors, to basically say, "We found and we are prosecuting or pursuing theft or waste, but at the same time, we think this resulted because of certain lacks of internal controls that ought to be remedied."

We ought not to rely on the inspector generals to remedy that, but it is very important, I think, for them to provide, on the basis of their experience, their suggestions as to where there are systemic problems rather than individual defalcations.

Chairman GLENN. I agree with you 100 percent, and I hope that is the way it is carried out.

Mr. KOSKINEN. Well, we will do our best.

Chairman GLENN. Sorry?

Mr. KOSKINEN. I said we will do our best.



Chairman GLENN. Good, because I just don't—I think adding an advisory role, expanding that advisory role to whatever agency or department they are in, that is fine. They have a good internal view of what is going on. If they have some suggestions, as you say, for better management practices, then they would be derelict in their duty if they did not suggest those things.

But the way some of the NPR recommendations came out, it tended to lead a lot of us to believe that the effort was going to be made to move them into more of that advisory role and out of the investigative role that they were supposed to perform, so I don't want to see that advisory role take over from or get in the way of their investigative role that they are there to do.

Performance measurement, I mentioned that earlier. Senator Roth has been pushing performance measurement. The Government Performance and Results Act was passed here. I supported him in that one. Implemented effectively, this, along with the IGs and the CFO Act, could do much to improve credibility of government.

Difficult to define, how you are going to come up with definitions of performance, and how we are going to do performance goals and measures. Is OMB monitoring the new pilot programs in a way that will ensure that we are getting performance data that means something, rather than just setting up another analyzing bureaucracy? How are we going to use this information?

Mr. KOSKINEN. Well, we are, but you have pinpointed a very critical point, and that is that sometimes it is easier to talk about performance measurements than actually defining them. We expect to spend a substantial amount of time on performance measures going forward.

We have Professor Joseph Wholey from the University of Southern California working with us on a temporary basis, starting soon, to try to look systemically at the definition of performance measures, to draw upon the experiences of government entities outside the Federal Government who have used performance measures, to make sure that we are in fact finding meaningful measurements.

We at OMB will never be able on our own to define the performance standards for the wide range of programs the Federal Government has. So, again, the secret is going to be to set up the standards but to encourage program managers themselves and the agencies to make proposals as to what they think are the appropriate measures of the effectiveness of the programs that they are undertaking.

Stepping back, I think the GPRA legislation will turn out to be one of the most significant pieces of legislation that has come through the Congress because, as you note, one would have thought that from the beginning of time we would have asked why are we undertaking a program? What do we expect to accomplish, and how are we doing in terms of accomplishing it?

Yet we have infrequently done that and rarely do we actually make budgetary decisions on the basis of actual statistical information about the return on our investment in any given program. I think over the period of time contemplated by GPRA, if we can effectively implement it, and define appropriate standards, we should

be able to change significantly the dialog each year about the expenditure of Federal resources.

Chairman GLENN. One area in which we may not completely agree is about the effectiveness of the Financial Integrity Act. Your responses to prehearing questions give the agencies perhaps higher marks than I would maybe give them if I was doing a similar grading. I am committed to reforming this law, and GAO is looking at it right now because we don't want it to be just a green eyeshade exercise for most agencies that doesn't have much relevance.

Almost everything about implementing the Integrity Act we have had problems with: the incentives for managers, the internal control assessments. OMB's new circular helps streamline the process, but I am not sure it gets down to some of the very fundamental problems. How do you plan to put teeth into the Financial Integrity Act? How are you going to hold managers more accountable?

Mr. KOSKINEN. I think what we have to be careful about is, as we talk about reinventing and restructuring the government and pushing more authority down into the operating levels of the agencies, we also have to provide accountability and we have to be able to measure what goes on out there. Whether it is in civil service reform or other agency restructurings, I think your point is well taken. We have to be very careful to make sure, as we increase the flexibility of workers, that we also increase their accountability for the responsibility we have given them.

I think that this will work most effectively not solely by being enforced by OMB or reviewed by OMB. It has to actually work in the agencies. What we hope is that the resource management organizations will become increasingly sensitive to the importance of these questions, rather than leaving it to outside or other agencies.

Here again is an example where, with proper guidance and leadership, we can make a significant improvement in the work that has already gone on, and it will be done as part of the normal budget review process rather than as an independent activity.

Chairman GLENN. One common thread running through all of the problems in these high risk problem areas that I keep mentioning, and that I think have to be the center of our focus, is information management failures. We have so much data, so much information, and yet how we use that—information management failures seem to be a root issue in many of the high risk problem areas.

IRM projects are constantly over budget, they are behind schedule, and when you look back at them, they seem to have been poorly planned. I think our central agencies with oversight in this area, OMB and GSA, can do much better. We spend something like \$25 billion annually in some of these areas that GSA is involved with.

Do you have any plans as to how we can be a better purchaser and user of major information management systems? Have you had experience in the private sector that would indicate how you think we should go in this area?

Mr. KOSKINEN. I have talked with the OIRA Administrator and the people overseeing, for OMB, information technology and policy. I think what we have to ensure is that we get beyond the general view of, "Well, let's buy a new system," to an actual review designed to ensure that we know what it is we are buying, the tech-

nical definitions of what we want, and what the performance measurements of that system ought to be once it is acquired.

It is a critical area. It, in my mind, ranks at the highest level of our priorities. I think what we need to do is, with GSA and the other government-wide agencies, make sure that as we move forward, we learn from the lessons of the past. There have been, as you say, several failures. We have lost a lot of money, but it is a complicated area.

My experience in the private sector is that, really, success is in the details. Acquiring new systems works to the extent that you get very good people, and you define very clearly what you are after, and then you monitor it very critically; that you do not simply say, "This is what we want," and turn it over to an outside vendor. I think we have to be more effective and pay more attention to this area and assign it a higher priority.

Chairman GLENN. I don't have any more pressing questions here. I would note that in this morning's Wall Street Journal, on the left of the front page—I don't know whether you have had a chance to read that or not—it says "Uranium Mill's Woes Highlight Huge Costs Of Nuclear Cleanup."

This happened to be at Fernald in Ohio, where we started some years ago looking into that, and it resulted in a whole series of GAO reports and all, where the estimates now for cleaning up our nuclear weapons complex all over the country, some 17 sites in 11 different States, is now estimated to be somewhere over \$300 billion over a 30-year period, which indicates we are going to have to really get into this thing.

I don't know whether you have some thoughts on the role that OMB should have in fixing some of the DOE's weapons plant problems, or whether you have had a chance to get into that. It is one of the items on the high risk list, and that is the reason I bring it up this morning, not just to point out an Ohio problem in particular, but it is right in the news today in the Wall Street Journal and it is going to be one of our very high budget items.

We are going to have to be devoting somewhere around \$9 or \$10 billion a year to this, if we do the right job on it, and yet we have already had some indication that DOE now wants to put some of this cleanup back a little bit, wait for new technology perhaps. I don't think that problem can wait. It is going to be a tough one.

I don't know whether you have had a chance to look into this or not, but I would appreciate any comments you could make on it.

Mr. KOSKINEN. I think everyone agrees with you that this is not just a single instance, it is a Nationwide problem. I understand that Alice Rivlin, as Deputy Director, has formed an interagency task force led by OMB and the White House Office of Environmental Policy, to look across the entire government, to try to isolate the nature of the problem, develop proposals for how we are going to attack it, and begin to clarify the estimated costs.

I understand that the expectation is that there will be an interim report this fall, as the first step toward trying to provide an overall solution. I think it is correct to say that part of the difficulty is that each of these sites presents a different constellation of problems. What we have to do is understand that this is more than just a

single high risk problem, this is sort of a Nationwide high risk problem that we have to solve.

I would expect that that task force will have more to say, and we will be delighted to share that with this Committee in the months ahead.

Chairman GLENN. Well, I agree, and I am looking forward to their report, but I don't think—we tend sometimes to say, "Well, let's hold up while we form another committee, another commission," to look at something around here, when a lot of the cleanup is obvious as to what has to be done.

There are some technical aspects of it, I agree, we don't know how to do yet, and we are doing some research in those areas. However, I begin to sense, in some of the different reports and in some of the comments out of DOE, and maybe other departments of government also, that as far as this cleanup goes, we are beginning to think, "Well, this is so big, let's put it off a little while," and that is not fair.

That is not right. That is not right to the people involved in these areas. They have been dealt with unfairly, as we know from all the news reports recently of some of radiation studies and things like that, and we are not going to be able to return every one of these sites to green field status, to the pristine purity that they had before there was ever a plant there.

However, there is also a great deal of cleanup we do know how to do, and we have to be funding it and we have to get on with it. I think it would be grossly unfair to these people. This problem was hidden for too long.

Everybody, we were so concerned, "The Russians are coming, the Russians are coming, we've got to produce fissile material, we've got to build the bombs and get them out there," and all of us were. I was part of that whole cry myself, "Let's not get outdone by the Soviets."

"What are we going to do with the waste?"

"Well, we'll put it out behind the plant and worry about it later." And here we sit, now is later, and we haven't cleaned the stuff up, and we have got to do it. I think it is that simple. So we can't throw money at these problems and make them all go away, that is for sure.

Just one last statement, and that is, I think what we are—in this area of financial management, if there is one thing the American people need to be reassured on to restore some credibility in government, it is in this area that you are going to be the top player in. Nobody wants more taxes. Polls have shown that 40-some percent of their tax dollars were wasted.

That is a horrible indictment of what people think of their government. This Committee is charged with overseeing the efficiencies of government. Your position over there, as the M in OMB—and other duties along with it right now, until you get somebody else in there, too—but your position is going to be key toward making those efficiencies in government work.

I think, through the work of this Committee and others in the Congress, I think we have provided the tools that you need basically, and if you need any additional legislation to give you author-

ity to do something, please let me know. I will be happy to go to work on it.

We have changed the procurement legislation. We have put the CFO Act through; the IGs that we mentioned this morning here; the Financial Integrity Act, and all these different things. I think you have the tools to do it, if we just have the will to do it.

I am not one of those who thinks that when you make a statement like "efficiencies in government," that that is an oxymoron statement going in. I don't believe that. That is the reason why we have been willing to work on this, to try and change that attitude toward government, and you are going to be key toward making that all happen.

I guess that is more of a pep talk than a question, but so be it, and if you have any closing statement you want to make, I would be glad to listen.

Mr. KOSKINEN. Why don't I come back once in a while for another pep talk, as I move forward?

Chairman GLENN. Just do it.

Mr. KOSKINEN. Well, I think you are right. As I have spent time over the last 6 weeks preparing for this hearing and responding to the Committee's prehearing questions, it has become clear to me that this Committee has exercised a substantial amount of leadership in this area and has given us significantly greater tools than existed before to deal with these problems.

While there will be need for some modifications in various pieces of legislation as we move forward, we are really at a stage now where execution and implementation is the name of the game we have to be playing. I think we need to show demonstrable accomplishments.

I am excited about the possibilities. I have come to this position primarily because there is, I think, a true commitment by the administration, the President and the Vice President, to attach the highest priority to these areas. I am delighted to have the opportunity to work with this Committee, which has provided the landmark legislation, and I think it now falls on our shoulders to take those initiatives and to make something out of them. I look forward to the challenge, and I do, again, look forward to working with all of you.

Chairman GLENN. Thank you much. A statement you made earlier, too, something about the attention on some of these problems, I wish we could increase the attention on them, because this is going to be key. You know, we all get excited about \$7,000 coffee pots and things like that that people can relate to in their own homes.

They understand. They bought a coffee pot for \$7.22 or whatever it was, and they don't understand why an airplane, because it has to be used in an airplane, the cost goes up to \$7,000, and neither does anyone else; or the infamous \$640 toilet seats and all the things, that you can buy an \$11.20 one down at Kmart or someplace, and so people understand that. It relates to their own home.

When you get into something as big and general as financial management, it begins to get very big and gooey and people's attention gets off of it. If I am correct, I counted a little while ago, a press table over here, with 36 chairs. We have three of our most

loyal, die-hard, hang in there type press people over here, but we don't see three networks and CNN in here pouring over every word you are saying this morning, or what I may say either.

It is just not as exciting when you get into these areas that people don't have the same kind of grasp of. Yet, if we are going to get the government working right and save tens upon tens of billions of dollars, it is going to come because we worked on the efficiencies of government, because we took it seriously and didn't ignore it, and that is the role you are going to perform over there.

We look forward to working with you, and I was very serious, if there are things that you think we need to change in legislation, that will help you do your job, let us know and we will get going on them. Meanwhile, we wish you well.

I know of no opposition to your appointment. I certainly will vote this out of Committee. I don't know, probably, since we have our—what, 3-day rule, that still is in effect, right?—we will file it, and I am sure that this will not come up for full Senate approval until after this 4th of July break, but we will get it over there so there is no delay. We want to get you in position over there.

Thank you.

Mr. KOSKINEN. Thank you, Mr. Chairman.

Chairman GLENN. The hearing will stand in recess.

[Whereupon, at 10:48 a.m., the Committee adjourned subject to the call of the Chair.]

## A P P E N D I X

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### BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEE

#### A. BIOGRAPHICAL INFORMATION

1. Name:  
John Andrew Koskinen.
2. Position to which nominated:  
Deputy Director for Management, Office of Management and Budget, Executive Office of the President.
3. Date of Nomination: May 11, 1994.
4. Address: (List current place of residence and office addresses.)  
Residence: 1846 Redwood Terrace, N.W., Washington, D.C. 20012.  
Business: The Palmieri Company, 1901 L Street, N.W., Suite 804, Washington, D.C. 20036.
5. Date and place of birth:  
June 30, 1939, Cleveland, Ohio.
6. Marital Status: (Include maiden name of wife or husband's name.)  
Married: Patricia Salz Koskinen.
7. Names and ages of children:  
Jeffrey Alan Koskinen (23) and Cheryl Ann Koskinen (20).
8. Education: (List secondary and higher education institutions, dates attended, degree received and date degree granted.)  
Ashland Sr. High School; 9/54 to 6/57; Diploma.  
Duke University; 9/57 to 6/61; BA.  
Yale Law School; 9/61 to 6/64; J.D.  
Cambridge University; 10/64 to 6/65; None.
9. Employment Record: List all jobs held since college, including the title or description of job, name of employer, location or work, and dates of employment. (Please use separate attachment, if necessary.)  
1965-66—Clerk to Chief Judge, U.S. Court of Appeals, Washington, DC.  
1966-67—Lawyer, Gibson, Dunn & Crutcher, Los Angeles, CA.  
1967-68—Special Assistant to Deputy Executive Director, National Advisory Commission on Civil Disorders, Washington, D.C.  
1968-69—Legislative Assistant to Mayor John Lindsay, New York City, NY.  
1969-73—Administrative Assistant to Senator Abraham Ribicoff (D-Conn.).  
1973-77—Vice President, The Palmieri Company, Washington, D.C.  
1977-Present—President & Chief Executive Officer, The Palmieri Company, Washington, D.C.
10. Military Service: List any military service, including dates, rank, and type of discharge.  
None.
11. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.  
Member, President's Management Improvement Council 1979-80.
12. Previous Appointments: Prior to this appointment, have you ever been nominated for a position requiring confirmation by the Senate? If so, please list each such position, including the date of nomination, Senate confirmation, and Committee hearing, if any.  
None.
13. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

- 1) Limited Partner Investments included with financial data which are:
  - EFC Investors.
  - Barclay Hotel Associates.
  - Worth Arcade Associates.
  - Sage Energy Partners, 1983.
  - Potomac Energy Partners.
  - JBG Ltd. Partnership.
  - Madison III Associates.
  - BPLC Inc. Liquidating Trust.
  - Victor Palmieri Associates, L.P.
  - VPCO Properties Liquidating Trust.
  - CGW Associates Ltd. Partnership.
  - Putnam Corners Ltd. Partnership.
  - Plaza Vantage Associates.
  - Foxfire Apartments.
  - Pende Oil Gas.
  - Sage Energy Partners, 1984.
  - Palm Center Associates.
  - Walters Wishing Well Apts.
  - TIAA-Cref Pension Plan.
- 2) The Palmieri Company and affiliates as follows:
  - The Palmieri Company, Director, President and Secretary of the Profit Sharing Committee.
  - Victor Palmieri Associates Inc., Director and President.
  - VPCO Properties, Inc., Director and Chairman.
  - VPCO Properties L.P. Liquidating Trust, Trustee.
  - VPCO Properties L.P. Stock Trust, Trustee.
  - Sunmark Holding Corp., Director and Chairman.
  - VPPI BAL Harbour, Director and Chairman.
- 3) Management Services provided pursuant to contract with Mutual Benefit Life Insurance Company in Rehabilitation.
14. Memberships: List all memberships and offices held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.
  - Chairman, Board of Trustees, Duke University.
  - Member, Board of Directors, Duke University Management Co.
  - Member, Board of Directors, USSF Foundation.
  - Member, Rock Creek Pool, Silver Springs, Maryland.
  - Principal, Council for Excellence in Government.
  - Member of the Bar Associations of California (inactive) and Connecticut.
  - Registered Broker in California, North Carolina and District of Columbia.
  - Member, Phi Beta Kappa.
15. Political affiliations and activities:
  - (a) List all offices with a political party which you have held or any public office for which you have been a candidate.
    - None.
  - (b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.
    - Member of Financial Institutions Task Force for Clinton Presidential Campaign, 1992.
  - (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.

#### *1989 Contributions*

Citizens in Action .....	\$100
Common Cause .....	100
Comm. to Reelect Wayne Owens .....	100
David Price for Congress .....	350
Democratic National Committee (DNC) .....	225
McMillan for Congress .....	100
Mel Levine for Congress .....	200
We're With Hagan .....	100
Valentine for Congress .....	200

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\$1,475



*1990 Contributions*

AIPAC .....	\$100
Bill Bradley for U.S. Senate .....	500
Blumenthal in '90 .....	500
Citizens for Eleanor Holmes Norton .....	500
Citizens Comm. for NYC—Lindsay Prize .....	1,000
Clinton for Governor .....	2,000
Common Cause .....	200
DNC/Federal Acct. ....	250
Mike Easley for Senate Comm. ....	500
Evelyn Murphy Comm. ....	200
Harvey Gantt for U.S. Senate .....	500
Lieberman '94 Campaign .....	500
Sharon Pratt Dixon for Mayor .....	500
Price for Congress .....	1,000
Sanford of Senate .....	500
	<hr/>
	\$8,750

*1991 Contributions*

AIPAC .....	\$100
Citizens Action Fund .....	100
The Clinton Campaign .....	1,000
The Clinton Campaign (wife) .....	1,000
DNC .....	250
Carol Brown Hubbard Committee .....	500
Hubbard for Congress Committee .....	200
Jim Hunt Committee .....	250
Lieberman '94 Committee .....	500
Citizens for Eleanor Norton .....	100
David Price for Congress .....	500
Sanford for Senate .....	500
Synar for Congress .....	100
Tim Valentine for Congress Comm. ....	200
Flora Barth Wolff Campaign .....	1,000
	<hr/>
	\$6,300

*1992 Contributions*

AIPAC .....	\$100
Abrams 92 .....	1,000
Clinton Campaign: Gen. Elec. Compliance Fund .....	1,000
Common Cause .....	200
DNC/Federal Account .....	250
DNC/Victory Fund/Federal Acct. ....	5,000
DNC/Federal Account .....	500
Citizens for Jim Hunt .....	500
Lieberman '94 Comm. ....	100
Maryland Democratic Party/Federal Account .....	100
Price for Congress .....	500
Valentine for Congress .....	250
	<hr/>
	\$10,300

*1993 Contributions*

AIPAC .....	\$100
Don Beyer '93 .....	300
Common Cause .....	400
DNC/Federal Account .....	250
Florio '93 .....	500
Lieberman '94 Comm. ....	500
Price for Congress .....	500
Terry for Governor .....	250
Valentine for Congress .....	250
	<hr/>
	\$3,050

## 1994 Contributions

Mike Andrews for U.S. Senate .....	\$100
Campaign for Mazie Hirono .....	1,000
North Carolinians for Jennifer Lazio .....	250
New Yorkers for Stan Lundine .....	1,000
Participation 2000 .....	250
	<b>\$2,600</b>

16. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

Duke University: A.B. Duke Scholar, ARMCO Community Scholarship, Elks Club National Scholar, Phi Beta Kappa, Phi Eta Sigma, Magna Cum Laude.

Yale Law School: Yale Law School Scholarship, Order of Coif, Note and Comment Editor, Yale Law Journal, Cum Laude.

Other: Maryland State Youth Soccer Coach of the Year, 1989.

17. Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written. It would be helpful for the Committee to have three copies of each published writing. Please denote any of those for which you are unable to provide copies.

1) "Real Estate Management and The Resolution Trust Corporation," *PREA Quarterly*, February, 1990.

2) "Active Real Estate Management Projects," *Public Investor*, June 1982.

3) "Managing Portfolios of Troubled Real Estate," *Real Estate Review*, Summer 1976.

18. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years of which you have copies and are on topics relevant to the position for which you have been nominated.

None.

19. Congressional Testimony: Have you ever testified before a Committee of the Congress? If so, please provide details, including date(s).

Yes—Both times before House Oversight Subcommittee of House Ways and Means Committee (Congressman Sam Gibbons, Chair).

Fall, 1977—Status of Assets of Central States Pension Fund.

Spring, 1979—Status of Assets of Central States Pension Fund.

20. Selection:

(a) Do you know why you were chosen for this nomination by the President?

No, However I assume he determined that my experience as a Senate staffer and my business experience fit well with the requirements of this position as described in greater detail below.

(b) What do you believe in your background or employment experience affirmatively qualified you for this particular appointment?

I have spent the past 21 years managing the turnarounds of large failed business enterprises. I began in 1973 with responsibilities for the organization, management and disposition of the \$1 billion portfolio of Penn Central Real Estate and Energy assets which, while overseen by a 130 person department, had never been organized as a business entity. Since then I have personally overseen the restructuring and reorganization of the business operations of Levitt and Sons, Incorporated, once the largest U.S. home-builder, the bulk of the assets of the Teamsters Central States Pension Fund, a \$250 million portfolio of operating entities and assets purchased from First Chicago Corporation, the operations of Equity Programs Investment Corporation (EPIC), and, most recently, a \$6 billion portfolio of operating entities and investments for Mutual Benefit Life Insurance Corporation in Rehabilitation.

In all of these positions, which I directly managed, our task was to reorganize and restructure the entity's operations and its personnel, develop five year strategic plans and budgets, install new financial and management information systems and generally restore stability and successful operations to floundering organizations.

My earlier government service provides me with an understanding of the different circumstances that surround management change in the public sector, when you are trying to encourage new methods of operations and new forms of financial reporting.

In short, I have enjoyed being a crisis manager and supervisor of change for most of my career, a background that seems suited to the challenges facing the Deputy Director for Management of OMB.

## B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

Yes—I will terminate employment with The Palmieri Company upon entering government service with receipt of a lump sum amount at that time determined by terms of a written employment contract. I will leave my interest in the Company's fully-funded, defined contribution profit-sharing plan (non self-directed) administered by the Company profit-sharing plan committee, in the plan. I will also retain a contractual interest in a possible contingent payment from the Company's existing contract with The State of New Jersey for financial management of an insurance company in rehabilitation proceedings—the amount to be determined by a New Jersey State court for work under a 3 year contract expiring August, 1994. The amount to be paid to me is fixed by formula under my employment contract and will include only work accomplished prior to my resignation.

2. Do you have plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes.

## C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

As discussed in B-1 above, I will terminate employment with The Palmieri Company upon entering government service with receipt of a lump sum amount at that time determined by terms of a written employment contract. I will leave my interest in the Company's fully-funded, defined contribution profit-sharing plan (non self-directed) administered by the Company profit-sharing plan committee, in the plan. I will also retain a contractual interest in a possible contingent payment from the Company's existing contract with The State of New Jersey for financial management of an insurance company in rehabilitation proceedings—the amount to be determined by a New Jersey State court for work under a 3 year contract expiring August, 1994. The amount to be paid to me is fixed by formula under my employment contract and will include only work accomplished prior to my resignation.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

I am about to begin serving as Chairman of the Board of Trustees of Duke University. I also have small investments in four oil and gas drilling funds and a limited partnership interest in a California winery.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

None, other than membership in Council for Excellence in Government and modest support of Common Cause and AIPAC.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

If confirmed, I will take the following actions:

1. I will resign from The Palmieri Company, The Board of the U.S.S.F. Soccer Foundation, and the Duke University Management Company Board.
  2. I will divest my interest in the four oil and gas drilling funds, Pende Oil & Gas, Sage Energy Partners 1983, Sage Energy Partners, 1984, and Potomac Energy Partners and VPCO Properties Liquidating Trust. I have already divested myself in stock holdings in two small software development companies, 202 Data Systems and ITI Investors.
  3. I will recuse myself from any particular matter in which CGW Associates (the California winery partnership) or Duke University has a financial interest. Until the conclusion of the New Jersey contract referred to in B-1, I will also recuse myself from any particular matter in which the Insurance Department of the State of New Jersey has a financial interest.
  4. I will not participate in direct fundraising activities or investment management decisions in any position as a trustee, or Chairman of the Board of Trustees, of Duke University.
6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

#### D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.  
No.
2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.  
No.
3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative proceeding or civil litigation? If so, provide details.

The Palmieri Company was the successful plaintiff in a case, pursuant to our management of the assets of The Teamsters Pension Fund, against The Golden Nugget for payment of money owed to the Fund. As a result, a cross-claim by The Pension Fund was dismissed. In the Rehabilitation proceedings for Mutual Benefit Life Insurance, a creditor group moved to reduce the fees of attorneys and The Palmieri Company. A special master appointed by the Court reported to the Court that there was no basis for any reduction in The Palmieri Company's fees. This finding was supported and approved by the Court. Crazy Eddie, a company we once managed, engaged in successful litigation against its auditors for failure to uncover inventory fraud prior to our management and in litigation against Eddie Antar, the Company's founder.

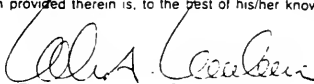
4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense?  
No.
5. Please advise the Committee of any additional information favorable or unfavorable, which you feel should be considered in connection with your nomination.  
None.

#### E. FINANCIAL DATA

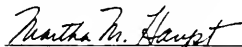
(Retained in Committee Files.)

## AFFIDAVIT

John A. Koskinen being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.



Subscribed and sworn before me this 3rd day of May, 1994



Notary Public

District of Columbia  
My Commission Expires: 9/30/98

(Seal)

## WRITTEN QUESTIONS FROM CHAIRMAN GLENN TO JOHN A. KOSKINEN AND THE RESPONSES

### I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

**Question 1.** Why do you believe the President nominated you to serve as Deputy Director for Management of the Office of Management and Budget (OMB)?

**Answer.** I believe that the President thought that my 21 years of experience managing the restructuring of large, troubled companies in the private sector was the kind of background that fit the requirements of this position. This is particularly so since the major management changes we implemented were generally in circumstances where varied constituencies, each with their own interests, concerns, and goals, were actively involved in monitoring, and occasionally challenging, our activities.

**Question 2.** Why did you choose to accept this appointment, and what particular qualifications will you bring to OMB?

**Answer.** I accepted this appointment both because I wanted to return to public service and because I have always enjoyed the challenge of making organizations run better and become more enjoyable, challenging and satisfying places to work. Taking my earlier experiences working for the Kerner Commission, representing Mayor John Lindsay and New York City here in Washington, and serving as Administrative Assistant to Senator Abraham Ribicoff together with my private sector background, it almost seems that I have been training for 30 years for this position. I cannot imagine a government position that would better utilize my talents and interests.

**Question 3.** Were any conditions, expressed or implied, attached to your nomination to be Deputy Director for Management of OMB?

**Answer.** No.

**Question 4.** Have you made any commitments with respect to the policies and programs which you will implement as Deputy Director for Management? If so, please explain.

**Answer.** No, other than to assure the Vice President that not only was I comfortable with the management theories on which the National Performance Review was based, they represented ideas that I have believed in my entire adult life and would be pleased to try to implement.

**Question 5.** Are there any issues involving OMB from which you may have to recuse or disqualify yourself? If so, what system will you establish to carry these issues?

**Answer.** I have agreed that I will not be involved in any particular matter in which CGW Associates (a California winery) or Duke University has a financial interest, the latter because of my service as chairman of the Board of Trustees. Also, until conclusion of a contract involving the Palmieri Company's management of Mutual Benefit Life Insurance Company in Newark, New Jersey, I will recuse myself from any particular matter in which the Insurance Department of New Jersey has a financial interest. In these situations, which I do not expect to occur often, I will arrange with the Director and Deputy Director for appropriate senior management oversight.

## II. ROLE OF THE OMB DEPUTY DIRECTOR FOR MANAGEMENT

*Question 1.* What do you consider to be your basic role and responsibilities as Deputy Director for Management? In addition to a discussion of your statutory responsibilities, please describe how the integration of management and budget staff into the "Resource Management Offices" (RMO) as proposed under OMB 2000 will affect your ability to staff and carry out those statutory management functions.

*Answer.* The attraction to me of becoming Deputy Director for Management (DDM) at OMB is the wide range of responsibilities the position has which provide the opportunity to make a real difference in how the Federal government operates. My basic role is to help organize OMB's management activities and integrate them into the budget review process. It is important for everyone at OMB to recognize that management issues arise out of program operations and are not simply a separate area of concern and activity.

In the area of financial management, I envision my basic role to be to provide leadership in carrying out the responsibilities included in the CFO Act. The CFO Act assigns some very specific functions to the DDM in financial management organization, financial management personnel, accounting standards, financial systems, internal controls, and management and financial reporting. Financial reporting that is timely and useful to senior decision makers is worthwhile only when there is sufficient assurance of the underlying quality and integrity of the data. Much has been done to identify and improve these individual financial management areas. I would like to focus especially on integrating these efforts and to generate greater understanding and appreciation throughout the government about the relevance and importance of these matters.

I plan to prioritize our activity here and elsewhere in OMB and to proceed in a coordinated manner so as to achieve timely but also lasting results. The recent financial management vision statement that the CFO Council has recommended for adoption seems to be a good place to start. The CFOs suggest we strive for an environment where:

1. Program managers and financial managers work in *partnership*.
2. *Performance* of programs as well as financial management is effectively measured.
3. *Customer service* is emphasized, with financial management providing not only control and accounting functions but also serving as a guide so services can be effectively structured to better meet the needs of the customer.
4. A *framework* and a road map for an integrated and successful Federal financial management program is established which focuses on the integration of budget, program, management, and financial information. As a general matter, helping to design and implement a system where financial information is really used by senior decision makers throughout the government in their daily policy-making and operations will be one of my key goals.

In the area of credit and cash management, I see my role as providing leadership through the Federal Credit Policy Working Group and the CFO Council to ensure the efficient and effective management of Federal resources paid for by taxpayers as contemplated by portions of the CFO Act, the Debt Collection Act, and the Prompt Pay Act. This includes the development and monitoring of sound credit and cash management policies to avoid unnecessary losses; efficient collection of debts owed the Government; processing of collections and payments in a timely manner and, wherever possible, through electronic means; and proper valuation and management of other assets from acquisition to disposal along with related reporting to Congress and others.

The Credit and Cash Management staff has been fully integrated into the RMOs, where I would expect we would have ongoing monitoring of these areas. A Senior Advisor for Credit and Cash Management is responsible for tracking government-wide receivables and collections, continued focus on high priority initiatives, and development of government-wide policies and management tools, when and where appropriate.

Another responsibility given to my position under the CFO Act includes the general policies governing the systematic measurement of performance and managerial systems. The Government Performance and Results Act (GPRA) expands the requirement for performance measurement, although it does not assign responsibility specifically to my office. Within OMB, the responsibility for GPRA implementation rests with the Office of the Director, of which the Deputy Director for Management is a part. Performance measurement is one of the most important and significant undertakings begun in the area of government management. I look forward to working in this area both with the staff of OFFM as well as the Resource Management Offices (RMOs) which are responsible for coordinating and directing implementation

of performance measurement requirements in the individual agencies over which they have cognizance.

Another statutory responsibility of the DDM is procurement policy. I look forward to working closely with the OFPP Administrator and his staff to ensure that the recommendations of the National Performance Review (NPR) for streamlining the procurement system along with several other initiatives begun by his office are successfully achieved. Once the procurement streamlining legislation being considered by Congress becomes law, one of our priorities will be to expedite its implementation to allow agencies to use the new, more efficient procedures the legislation provides. I also plan to work on issues such as past performance, performance-based service contracting, contract administration, best value procurement and electronic commerce.

In my view, the integration of some procurement specialists from OFPP into the RMOs will provide a stronger base from which to generate increased and more effective attention to management and procurement issues by the executive branch agencies.

One of the more intriguing areas of my responsibilities are the activities of the Office of Information and Regulatory Affairs (OIRA). One of OIRA's major activities is to provide leadership to ensure that information policy and information technology management are integrated into overall government management as federal agencies move into the information age. Information technology needs to support agencies' missions. At the same time, agencies should be collecting information in the least burdensome manner possible and actively disseminating government information to all sectors of the public on timely and equitable terms. Much of the work in the upcoming year will be to follow up on the cross-cutting recommendations of the NPR for information technology and to support the development of the National Information Infrastructure.

As a part of OMB's efforts to implement new work processes under OMB 2000, I understand OIRA has created an Information Systems Staff Group to help bring OIRA's government-wide expertise in information resources management (IRM) together with the RMO analysts' in-depth knowledge of their agencies and programs. The RMO representatives on this "virtual" staff group have programs that rely, or should rely, heavily on information systems. Through OIRA's leadership of this staff group, OMB will effectively have more staff working on government information systems issues than in the past.

An exciting activity underway under OIRA's leadership is the planned initiation of the Government Information Locator Service (GILS) project to serve as an electronic card catalog to assist the public in locating and accessing government information.

I also look forward to working with OIRA in the exercise of its regulatory review responsibilities under the Paperwork Reduction Act, and Executive Order Nos. 12866 and 12875. Here the impact of OMB 2000 has several facets. For example, OIRA's regulatory review functions supplement those of the RMOs by bringing to the RMOs' attention regulations that may have a budgetary impact. In addition, OIRA coordinates review of rules that may affect more than one agency across RMOs, ensuring that cross-cutting regulatory issues receive proper attention throughout OMB. OIRA's review functions complement the work of the RMOs by ensuring that the non-budgetary costs of regulations—those levied on State, local, or tribal governments or on the private sector, for example—are considered in Federal policymaking.

The NPR has been a significant catalyst for improving the management of the Federal government. I think an important part of my responsibilities is to help ensure that the NPR recommendations are implemented in a prompt and efficient manner. We need to recognize, however, that, while numerous recommendations provide budget savings, some changes will require up-front investments in order to realize those savings. This is especially true for agency re-engineering efforts, which generally require the introduction of up-to-date information technology. The range of NPR recommendations in this area alone is breathtaking and include integrated electronic benefit transfer, government-wide electronic mail, and intergovernmental tax filing, reporting and payments processing to streamline the reporting of wage information and tax payments from employers to the IRS and other taxing authorities.

Another area of OIRA responsibility is to provide leadership, coordination, and guidance for Federal statistical programs through its cooperative relationship with the agencies of the decentralized Federal statistical system. The closer integration of budget and management functions that OMB 2000 envisions will further leverage OIRA's efforts to develop long-range plans for the Federal statistical system and to coordinate the statistical budget and paperwork processes that support their effective-

tive implementation. An important part of my responsibilities is to facilitate these efforts in order to continue the flow of unbiased and timely information about the state of the economy, the environment, health, and society that is essential for the economic, social, and political well being of our nation and its people.

Another area of designated responsibility for me will be in the personnel management area. E.O. No. 12871 designates the DDM as a member of the National Partnership Council (NPC), which was directed by the President to propose legislative changes to achieve improved labor-management relations through partnerships throughout the government. The NPC also was charged with carrying out other NPR recommendations for the creation of a flexible and responsive hiring system and reform of the General Schedule classification system.

In addition, the NPC is also to work with the President's Management Council to achieve the NPR's recommended reforms in this area, including how we hire, develop, utilize, compensate, reward, discipline, terminate, and manage the Federal workforce. No area of management reform is more important than this.

One of the interesting responsibilities of the DDM is to work with State and local governments to improve and strengthen intergovernmental relations. Having once worked for Mayor John Lindsay representing New York City here in Washington, I understand the significance and importance of this area of activity.

OMB is in a unique position to provide government-wide coordination in two ways: through the review of budgets, legislation, and regulations for issues that affect State and local governments; and by maintaining a single point of contact in the Government to ensure communication within OMB and outside, with the Federal agencies intergovernmental affairs offices, State and local governments, and their representative associations.

Under OMB 2000, OMB's role in intergovernmental affairs will not be changed. OMB's RMOs, the Legislative Reference Division, and OIRA will continue to review agency policies, programs, cooperative arrangements, budget requests proposed regulations, and draft legislation to identify their impact on State and local governments. The Federal Services Branch, although moved to an RMO, will continue to coordinate the communications role for OMB.

*Question 2.* What objectives do you hope to achieve in your tenure as Deputy Director for Management of OMB, and why are those particular objectives important to you?

*Answer.* I hope to help make a significant impact on the improvement in management of the Federal government and its programs. Even were we suddenly to have greater resources available than we do, I believe we have an obligation to the American taxpayer to do everything we can to see that their money is well spent in every activity the government undertakes.

One of my first activities will be to work with all the senior executives at OMB to develop a management program for OMB that sets clear priorities for specific management improvement activities. There is so much that could theoretically be done that we risk spreading our resources and energies across too broad a front, thereby accomplishing much less than otherwise would be possible. Just as we ask others to establish goals and performance measures, so should we be accountable ourselves. These objectives are important to me because they represent the area in which I can make a contribution to our government, which is why I accepted this nomination.

*Question 3.* What is your understanding of the DDM's organizational relationship to the OMB Deputy Director? How would you describe the division of authority and duties between the Deputy Director and the DDM? What impact do you think OMB 2000 will have on that division?

*Answer.* The Director, Deputy Director and Deputy Director for Management (DDM) operate as a team to which the rest of OMB reports. It is my understanding that prior to the OMB 2000 reorganization, both Deputies reported to the Director and worked very closely with him and one another on a day-to-day basis. OMB 2000, it seems to me, further reinforces the desirability of such a team approach in that the combined and coordinated leadership of strong individuals with varied experience can only make OMB more effective.

Regarding my duties, let me reaffirm that, if confirmed, I shall be accountable to the Director and this Committee in discharging my statutory responsibilities. As to other specific responsibilities, my expectation is that the Deputy Director and I will work closely on OMB's priorities, taking the lead or support role as time and interest dictate, just as the Deputies did in the past. For example, both Deputies participated in last summer's management and budget reviews. OMB 2000 underscores the limited effectiveness of splitting budget and management into discrete activities, so I look forward to a close working relationship with Alice Rivlin, whose work at OMB, Brookings, and CBO I greatly admire and respect. In particular, I am enthu-



siastic about the possibilities presented by OMB 2000 to work with the Director and Deputy Director to ensure that those working in the Resource Management Offices (RMOs) are aware of and participate in the wide range of management initiatives that have been and will be undertaken by this Administration.

*Question 4.* What role do you anticipate playing in the selection of individuals to appointive and career positions in OMB and specifically in OIRA, OFFM, and OFPP?

*Answer.* If confirmed, I commit to working with OMB's Director and Deputy Director in filling the OFFM Controller position—which is the only other appointive vacancy at OMB—as quickly as possible while maintaining this Administration's standards for that position. The recruitment, hiring, retention, and promotion of career talent at OMB become even more important in light of OMB 2000. I intend to take an active role in ensuring that OMB's management capacity is augmented in the selection of personnel in both the statutory offices and the new resource management offices. This will entail advising senior managers and consulting closely with the Director and Deputy Director on qualifications and performance requirements as well as interviewing and evaluating candidates.

### III. OMB MANAGEMENT ROLE

*Question 1.* What do you believe are the major responsibilities and challenges facing the Federal government with regard to management, and how do you propose to address them?

*Answer.* I cannot add meaningfully to the basic concept of the NPR that we need to provide a government that works better and costs less. Throughout these questions by this Committee, specific important management questions are raised and discussed. As discussed earlier, one of my first actions will be to create a management program for OMB that represents a consensus of what our management priorities ought to be and how we can accomplish them. I will be pleased to keep you informed about those priorities as we develop them.

Our priorities will have to include programs to address questions of how to improve personnel management, information technology, performance measurement, procurement policies and financial management, if we are to make significant progress toward a more efficient and effective Federal government.

*Question 2.* Many commentators have said that improving government management and performance requires governmental reorganization and reform. What are your views on the need for government reorganization and consolidation, and how would you pursue it?

*Answer.* Like any large organization, the operations of the Federal government can be improved through appropriate reorganizations and consolidations. The National Performance Review proposed a substantial number of such reforms and the Clinton Administration will undoubtedly propose many others in the coming years.

Change for change's sake is not what these reorganizations are seeking. The overriding general goal of our efforts should be to improve government services to American citizens in the most cost-effective ways possible. In most instances, the difficult work of management improvement will not take place at OMB, but within the government agencies whose operations daily touch the lives of Americans in many different ways. I hope that OMB will facilitate these improvements through its work across the breadth of government, leveraging resources and providing direction where appropriate.

*Question 3A.* Vice President Gore has completed his "National Performance Review" of the Federal Government and now agencies are implementing many of its recommendations.

What is your view of the NPR?

*Answer.* I think the NPR was a historically significant initiative that has served as a highly visible catalyst for management reform. It sets forth an exciting vision of what the Federal government could be: an effective, entrepreneurial organization that seeks systemic change by building on the principles of cutting red tape, putting customers first, empowering employees to get results, and cutting back to basics.

The personal commitment of the President not to let the NPR report sit on a shelf and the Vice President's continuing leadership in "reinventing government" are two reasons why I accepted the DDM nomination and why I am enthusiastic about the possibilities inherent in this position. However, implementation of management reform, particularly requiring major structural and cultural change, will be difficult. Nonetheless, I believe that the National Performance Review has significant pressures working in its favor:

- A convergence of political and fiscal forces that demand our attention to management in order to restore public faith in the effectiveness of government

and to provide means for doing more with less under increasingly tight budget caps;

- A well-written report that articulates sound principles for management reform and is based on practical successes—not just theories—in the private sector, states, localities, and other countries;
- Significant progress on administrative and legislative recommendations since the report's Sept. 7, 1993, publication. I understand that about 80% of the NPR recommendations are either being implemented administratively or are being considered in the Congress. For example, one impressive accomplishment was the way the newly created President's Management Council worked together and with Congress on the buyout legislation in order to assist agency streamlining.

*Question 3B.* What role does OMB have in the NPR's implementation?

*Answer.* OMB has undertaken several roles in NPR implementation, including:

- Linking various management improvement efforts with each other and with the President's priorities. For example, I understand \$12.5 billion in cost savings from NPR recommendations were incorporated in the FY95 Budget or in FY94 actions, and OMB and the PMC are working to integrate agency streamlining plans with the budget;
- Working with the rest of the Executive Office of the President and the agencies in shepherding certain reforms. OFPP's Administrator, for example, took the lead in working with this Committee and others on procurement legislation. OMB also has the lead on GPRA implementation, a cornerstone of NPR's framework for moving to a results-oriented government;
- Providing guidance and assistance to a wide range of organizations devoted to management improvement, including the PMC, CFOs Council, the Federal Credit Policy Working Group, the PCIE and ECIE, information technology councils, the National Partnership Council, regulatory working groups, and other interagency groups.

Working in this area will be one of my highest priorities if confirmed.

*Question 3C.* What will be your responsibilities with respect to the National Performance Review? How actively will you be involved on a day-to-day basis?

*Answer.* Now that the NPR has moved into the implementation stage, my responsibility as DDM, if confirmed, is to help ensure that OMB carries out the three functions described in the answer to question III.3(b) above. Given the scope of the NPR agenda, I expect to be deeply involved on a day-to-day basis with the recommendations. In particular, I intend to work with the Director, the Deputy Director, RMOs and the statutory offices to develop a management program for OMB that will identify and focus on the key items that will yield the highest return for investment of human and political capital.

*Question 4A.* For some time, there has been a growing debate about government organization and the use of hybrid entities with uncertain authority, ambiguous lines of accountability, and confusing civil service status.

What are your views on this debate?

*Answer.* To the greatest extent possible, I believe the government should seek to carry out its objectives through traditional Federal agency structures. Existing rules and laws that define Federal agencies' authority and procedures (e.g., regarding pay, procurement, legislative and regulatory oversight) were developed to provide appropriate oversight, budgetary discipline, and public accountability. If some of these rules and laws routinely inhibit agencies from effectively carrying out their responsibilities, we should evaluate what changes are appropriate, as was done by the National Performance Review. For example, Congress is currently considering the Administration's recommendations for reforming procurement policies and procedures.

In certain cases, however, exempting an entity from some otherwise reasonable laws and procedures can improve its capacity to fulfill its public purpose. Typical examples include interventions in the capital markets by special agencies for housing and education. In those instances, a strong Federal regulator or review board with explicit oversight responsibilities for both financial safety and soundness and program goals is essential to ensuring fiscal accountability and maintenance of a public purpose. Nevertheless, even with these safeguards, the presence of private investors can complicate the governance process. Moreover, once established, these entities are very difficult to eliminate, even if they are no longer serving their public policy objectives. In sum, although hybrid entities can add value to particular areas of public policy, these organizations present very difficult financial and programmatic management problems, and therefore ought to be created only with great caution.

*Question 4B.* What is your understanding of OMB's knowledge and capacity—and what more should it have—to design government corporations, GSE's, and even basic agencies?

*Answer.* Institutionally, I understand OMB has an impressive knowledge of existing, past, and once-contemplated government agencies, corporations, and GSE's. As the Executive Branch agency serving to coordinate policies across all the other agencies, OMB staff have a unique view of the wide range of possible agency structures and organizations, including their strengths and weaknesses. OMB staff also have the technical knowledge regarding budgetary and legal implications of various agency structures. OMB regularly consults with and reviews agency and White House proposals for creating new agencies, corporations, and GSEs. At this point, it appears that OMB had sufficient capacity and knowledge to adequately fulfill this role for the Executive Branch.

*Question 5.* What are your views on the President's Management Council (PMC)? What role do you plan to play with regard to the PMC? How many staff will you devote to support for the PMC?

*Answer.* I am enthusiastic about the progress made by the PMC thus far and its prospects for the future. As the Committee knows, the PMC is the most senior council in the Federal government focused on management improvement. The establishment of the PMC is one of many indications of the importance that the Clinton Administration places on managing Federal resources more effectively. Comprised largely of the Deputy Secretaries of the Cabinet and other large agencies, the PMC has engaged the appropriate level of department leadership in the task of creating a more efficient government.

Under the leadership of OMB's Deputy Director Alice Rivlin and with the demonstrated commitment of all its members, the PMC has made great strides in addressing some of the toughest management issues confronting the Federal government. The PMC is taking a leadership role in streamlining the government, consolidating field offices, improving customer service, and fashioning civil service reforms.

I look forward to serving as a member of the PMC and working closely with Alice Rivlin and the other members in crafting and implementing the Administration's management agenda. With respect to staffing, I intend to work with the Director and Alice to insure that we devote the level of OMB resources necessary to support the PMC. To date, the staffing needs of the PMC have been satisfied with a portion of the time of several OMB professionals. While future projects may require a more significant investment of resources, the current allocation of staff time appears sufficient for the near term.

*Question 6A.* Over the last several years, OMB management has made a priority of correcting problems in "high risk" areas using a "SWAT" team approach.

What are your views on the high risk initiative? If the initiative should be continued, how many full-time OMB staff should be dedicated to the effort?

*Answer.* I think the High Risk Program has been worthwhile and should be continued. It appears to have been a useful tool for focusing attention on management issues. I understand OMB is now working to ensure that the High Risk List concentrate on serious problems that can be solved operationally so that action can be focused on significant, specific problems.

The OMB 2000 mandate to strengthen OMB's focus on program effectiveness and efficiency should increase the visibility of the High Risk Program. OFFM retains overall responsibility for the program, but monitoring agency efforts to correct these weaknesses is now the responsibility of analysts in the Resource Management Offices, who will provide an integrated view of agency operations and resource issues.

*Question 6B.* What should be done to validate progress in "high risk" areas? (Keep in mind that the Department of Housing and Urban Development's earlier Federal Manager's Financial Integrity Act (FMFIA) reports indicated that its management problems were under control and the Department of Defense has offered a positive statement of assurance even though major financial management problems persist.)

*Answer.* The ultimate responsibility for ensuring good agency management, including correcting high risk areas, rests with the agency heads. While the views of IGs, GAO and OMB can be very helpful in identifying areas where improvements are necessary, external oversight mechanisms cannot substitute for agency management being held responsible for the operations of their programs.

From OMB's perspective, validation of agency progress in correcting high risk areas is now part of the normal course of RMO analysts' work. Because of their daily interactions with agency staff, RMO analysts have a variety of tools for assessing the status of corrective actions. They bring a broad perspective to bear on the information provided by agencies, which should result in increasingly reliable reports on the status of corrective actions taking place in high-risk areas.

*Question 6C.* Do you believe the SWAT Team approach is the best one? How can OMB become more proactive in heading off management problems before they occur?

*Answer.* Solving high risk problems is important but cannot be our only or our main management focus. We need to identify systemic weaknesses and correct them as an ongoing matter even before high risk problems are created. Focusing only on problems after the fact will mean that we will be in the high risk business in a major way forever.

OMB needs to help identify and solve system-wide problems on a regular basis, working cooperatively with individual agencies. Such joint OMB-agency efforts could be viewed as forms of SWAT teams, albeit operating in a more regular and more pro-active manner.

*Question 7.* Central agencies make policies and provide service; however, there is a great deal of debate about the extent to which policy making and service delivery should be separated and the extent to which government should centralize the provision of services such as financial management, personnel and facilities management. The National Performance Review (NPR) has called for more flexibility in this regard. What are your views?

*Answer.* I believe there is merit to the argument that more flexibility is needed to permit the separation of policy-making from service delivery and to allow increased decentralization of certain responsibilities to the agencies to free central agency resources for policy-making.

More specifically, with regard to facilities management, I believe we need uniform policies and monitoring of the way the Federal Government acquires, uses, and disposes of property. A central management agency, such as GSA, is well situated and has the expertise to fulfill the role of developing government-wide real property policies and monitoring the implementation of these policies. However, OMB and the National Performance Review have agreed that the development and monitoring of these policies should be separated from real property operations in order to ensure independent evaluation of those operations.

Separating policy-making from operations in human resources management areas was strongly endorsed by the NPR and was reflected in its many recommendations to decentralize, deregulate, and delegate operational work to the agencies. I support this view, believing that OPM's policy-making and leadership role will be strengthened by moving personnel operations best performed by specific operations into the agencies. By concentrating on government-wide standards that support merit, diversity, and equity, by providing leadership in the design of systems to help line managers carry out their human resources management responsibilities, and by delivering advice and consultative services to the agencies, OPM's policy and leadership role will be strengthened.

The separation of policy-making and service delivery versus the centralization of the provision of services pertains to financial management as well. Under delegation of the Secretary's statutory authorities, the Fiscal Service of the Treasury is responsible for the government's fiscal policy and operations in the management of the Treasury of the United States, including the Federal Government's cash position, collections, disbursements, central accounting, government-wide financial reporting, investments, and borrowing authority. Treasury retains some of the operational functions and delegates others. Recognizing that customer service is a theme of this Administration, and that technology is changing the way in which banking is done, there are probably more opportunities for increased delegation, e.g., delegation of disbursement authorities.

Another issue in financial management is the need for the agencies to understand the responsibilities of Treasury and of OMB for financial management policy-making and implementation. The NPR recommended that the two organizations sign a memorandum of understanding defining their roles. That MOU has been developed. A provision in the MOU calls for coordination of Treasury projects affecting government-wide financial management with the CFO Council and the Office of Federal Financial Management. This provision will highlight the importance of service delivery in Treasury's dealings with other agencies about issues such as disbursement of payments, improvement of Federal debt collection, and the development of better Federal accounting information and systems.

#### IV. FINANCIAL MANAGEMENT

*Question 1.* Please describe your views on the importance of financial management improvement in general and the financial management requirements of the CFO Act in particular.

*Answer.* We will have failed our obligation to the public to be careful stewards of Federal resources if we do not continue to improve financial management in the Federal government. We cannot allow agencies to rely on financial information that is often wrong and late to make multi-billion dollar decisions. Agencies also need to know how many assets they have and where those assets are.

As the National Performance Review said: "Management isn't about guessing, it's about knowing. Those in positions of responsibility must have the information they need to make good decisions. Good managers have the right information at their fingertips. Poor managers don't." The essence of "reinventing government" is delegation, empowerment, less regulation, and rewarding performance. Managers cannot apply these principles, without accurate and timely financial information.

Good financial management also provides the information and systems that help to prevent fraud or failure and allows us to determine whether programs are succeeding or have to be modified to achieve the desired results.

The Chief Financial Officers Act of 1990 was a significant step forward in this area. It included three tenets to bring about improvement of the government's financial management: (1) assigning responsibility and authority for financial management, (2) supporting improved financial management systems, and (3) requiring audited financial statements. I believe that this Act will play a significant role in the improvement of government management.

*Question 2.* Please describe your views on the role of OMB's Office of Federal Financial Management (OFFM), and its relationship to the rest of OMB's management side and the restructured budget side.

*Answer.* The role of the Office of Federal Financial Management (OFFM) is to support OMB's financial management functions through the development of policies and guidance materials for government generally as well as for individual agencies. OFFM often works in tandem with the other statutory management agencies. For example, OFFM is working with OFPP to develop a more effective approach to auditing government contractors and to define the concepts and requirements for electronic commerce. OFFM works with OIRA on defining policy for the agencies' financial information systems. These working relationships are an important part of OMB's efforts to improve financial management.

OFFM's relationship with the resource management offices (RMOs) resulting from OMB 2000 will help the program examiners insure that agencies properly implement and carry out the financial management policies required by the CFO Act and developed by OFFM. This entails training the RMO staffs, working jointly with them to institute needed improvements in the agencies, involving RMO staff when OFFM works directly with an agency, and providing the RMOs with the tools to monitor implementation of financial policies.

*Question 2A.* What are your intentions regarding staff resources for the OFFM to carry out CFO Act reforms in the wake of OMB 2000?

*Answer.* I understand that the current plans at OMB are for OFFM direct staff resources to remain at the present level of 20 FTEs. The OMB 2000 restructuring, however, should improve the effectiveness of OFFM by the direct working relationship established with the RMOs. This will provide RMO staff with a better understanding of financial management in their agencies and enable all of OMB to be more effective in obtaining improvements. OMB 2000 also will allow OFFM to expand its use of RMO staff in task forces to define policies and guidance materials. This approach should increase the agencies' acceptance of financial management policies, which too often have been seen as unrelated to the agencies' main missions.

*Question 2B.* Do you know how many OFFM staff are anticipated for FY 1995 and how many will be newly hired as opposed to reassigned within OMB?

*Answer.* I am advised that 20 FTEs are anticipated for OFFM for FY 1995. Replacements for persons that have accepted other positions or retired are likely to be newly hired into OFFM as opposed to reassigned within OMB. The technical nature of OFFM policy work, e.g., audited financial statements and automated financial systems, necessitates that OFFM employ persons with specialized skills.

*Question 3.* The controller position has been vacant for 50 percent of the time since enactment of the CFO Act. What will you do to ensure this position is filled quickly?

*Answer.* The Controller position is an important part of the senior management team at OMB, along with the Deputy Director, the Administrators of OIRA and OFPP, and the Program Associate Directors.

One of my first priorities will be to help find a qualified, energetic and enthusiastic executive to fill this position. However, I should note that, even with the vacancy in this position, OFFM has made great progress, to a large extent because of the continuity in the senior staff in this office since it was established. For example, a 5-year financial management plan was developed, as required by the Act, to define

the manner in which better financial management would be established in the government and the agencies. That plan has guided the financial management program during the past three years.

*Question 4A.* Agency CFOs are critical to achieving the objectives of the CFO Act. In the last administration, however, some agency CFO positions were never filled, some were filled with individuals with little or no financial management experience, and some were assigned as secondary responsibilities to officials with other duties, such as personnel, administration, or procurement.

What are your views on whether agency CFOs should have multiple or singular responsibilities? How will you ensure that financial issues are given the proper attention in agencies where CFOs have multiple responsibilities?

*Answer.* I think agency heads should have the flexibility to determine the financial management responsibilities, and hence structures, of their CFO offices—with particular attention paid to the operational requirements and programs of the agency—while still meeting the intent of the CFO Act. While, as a general matter, I support the preference for CFO offices focused primarily on financial management issues, I understand that agency heads have successfully adopted variations on this model where it was deemed appropriate. In fact, I am told current organizational structures are split almost 50–50 between singular (11 agencies) and multiple (12 agencies) responsibilities for the 23 CFO Act agencies.

Providing a CFO's office with multiple responsibilities should not prevent the CFO from successfully meeting the requirements of the CFO Act. Implementing a sound financial management program is more dependent upon the desire and abilities of the agency head and the CFO than upon the focus of the CFO office. Thus, one of my early priorities will be to work with the White House Personnel Office and agency heads to insure that we attract qualified executives to fill these slots with a clear commitment to ensure that financial management has a high priority in each agency.

*Question 4B.* OMB has been criticized for neglecting CFO organizational issues within the agencies. What will be your procedures for reviewing agency CFO structures?

*Answer.* I am not aware that OMB has neglected CFO organizational issues. Rather, I have been advised that OMB has encouraged each agency to consider how its CFO office should be organized. When agencies submit CFO organizational proposals, OMB staff review the proposal against the CFO Act requirements. When significant differences of opinion arose, negotiations have occurred. But, for the most part, my understanding is that OMB has agreed with the agency head on the organizational structure finally adopted. I plan to continue to pay close attention to this matter, with an emphasis on the quality of people occupying these positions and the importance assigned to the CFO office by the agency.

*Question 4C.* The Agency for International Development has asked OMB's permission to seek legislation for converting the CFO from a career position to a political one. What is your opinion on making such conversions, and what is its likely impact on Federal financial management?

*Answer.* Apparently, AID's Administrator would like to convert the CFO from a career to political position as part of a larger reorganization of AID. I understand that Mr. Atwood is seeking to fully integrate the management systems that affect delivery of foreign assistance funds and believes that direct line responsibility for all these functions should rest with a single official, who reports directly to him. The Director has recently sent a letter approving this recommendation.

I would hope that an organizational structure that meets both the agency head's needs and relevant legislative requirements would have a positive impact on Federal financial management. If an agency head can use all the tools at his disposal to focus attention on financial management improvements—if he demonstrates that making those improvements is a priority—then positive change seems more likely to occur.

*Question 5.* The OMB 5-Year Plan for improving financial management raises many concerns, including how billions of dollars of federal money administered by states, localities, and third parties will be managed and whether agencies have the resources necessary to make CFO Act reforms. What are your views and priorities?

*Answer.* I have been briefed on the significant progress of important government-wide initiatives to implement the CFO Act. Regarding priorities, as stated earlier, I am impressed by the CFO Council's progress toward developing a financial management vision statement. This vision, and the goals and strategies that will implement it, provide an excellent framework for financial management improvement. The draft vision statement reads:

Enabling government to work better and cost less requires program and financial managers, working in partnership using modern management

techniques and integrated financial management systems, to make decision and measure performance to achieve desirable outcomes and real cost effectiveness.

This vision statement acknowledges that financial management is not solely the responsibility of financial executives. All Federal managers face financial decisions and responsibilities daily as part of their overall program management.

Goals and strategies also have been developed to assist in implementing the financial management vision. OMB needs to work in concert with the CFO Council in order to concentrate efforts to achieve these goals:

- To provide leadership to promote the efficient management of government;
- To establish a government-wide framework to provide sound financial policies and services and to facilitate effective communication;
- To provide quality financial services to customers based on their needs; and
- To provide complete and useful financial information on Federal government operations which fully supports financial and performance reporting.

OMB's role, and one of my priorities if confirmed as DDM, will be to work with and assist the agencies in achieving this financial management vision.

*Question 6.* One of the biggest impediments to CFO Act implementation may be the lack of financial management training in the agencies. What will you do to help agencies improve in this area?

*Answer.* If confirmed as DDM, I will work with the CFO Council to establish a sound training program in financial management. Training is a critical activity if the Federal government is to keep pace with ever-changing financial responsibilities. To date, I understand the CFO Council's Human Resource Committee has spent considerable time deliberating the issues and problems of training for financial management staff. Cost, quality, type and amount of training are all being examined.

At the CFO Council Conference on May 18th, the Council members recommended that the Human Resource Committee consider the following projects for fostering training: (i) survey and publish "best practices" in agency training; (ii) determine if a mandatory continuing professional education requirement is necessary; (iii) develop incentives to encourage employees to take training; (iv) structure training programs for those in field offices as well as in headquarters facilities; (v) move beyond classroom training to rotation assignments, self-study, etc; and (vi) establish requirements for various grade levels. I am advised that the Human Resource Committee plans this summer to provide practical advice and examples to agency CFOs on emphasizing and providing training for financial management staff.

I plan to work closely with the CFO Council in pursuing this excellent program.

*Question 7A.* The CFO Act requires development of agency financial statements—the process of preparing reliable financial statements is commonly considered as valuable as the end product.

What are your views about the importance of financial statements? How will you bring agencies not currently fulfilling the CFO Act's mandates into full compliance?

*Answer.* In the private sector, financial statements provide information critical to investor and creditor evaluation of the overall strength of an organization's operations and financial health as well as information critical to management for evaluating performance. Similarly, Federal agency financial statements should serve the needs of management, Congress, and the general public.

Financial statements should provide information about an agency's or program's (1) operating performance, including its service efforts, costs, and accomplishments; (2) budgetary integrity to insure an agency or program used its resources in accordance with spending authorities; (3) stewardship to assess whether the agency's or program's financial position improved or deteriorated; and (4) systems and controls to reflect the integrity of financial operations. These objectives will not be accomplished solely through the production of reliable financial data; however, they cannot be accomplished without reliable financial data.

It has been my experience that the requirement to prepare financial statements and have them audited annually motivates management to develop systems and procedures that reasonably ensure the quality of financial information and operations. I believe the success already achieved in implementing the audited financial statement provisions of the CFO Act has been remarkable, given the previous condition of agency accounting systems and the lack of experience in preparing and auditing financial statements. For those agencies having difficulty complying, I would rely on both OFFM and RMO staff to work closely with agency staff to identify impediments to effective implementation of the Act, develop mutually agreeable solutions, and prepare an action plan for removing the impediments. OFFM will assist the RMOs in monitoring the agencies' progress in implementing action plans as well as with hands-on technical assistance, where necessary.

**Question 7B.** What can financial statements and other financial management information provide that will improve the public's understanding of government operations, as well as the government's accountability to the public? What are your views on making such financial information more readily available?

**Answer.** Financial statements can improve the public's understanding of government operations by disclosing the full costs of specific programs and activities and the composition of, and changes in, these costs over time together with information about the extent to which future generations will have to provide resources to fund current and past policy decisions. Accordingly, it is important for this information to be published and reviewed in a timely manner.

I believe agencies should inform the public of the availability of this information and take steps to ensure wide distribution of their financial statements. I fully support the National Performance Review's recommendation that calls for the issuance by 1997 of the first government-wide audited financial statements, and will support the wide distribution of these statements so that citizens are apprised of the Federal Government's financial condition.

**Question 8.** What do you consider to be OMB's responsibilities with respect to financial audits of Federal agencies?

**Answer.** OMB has several responsibilities in this area. OMB should continue to establish government-wide policies to implement the audit requirements of the CFO Act. I understand that there are some limitations in the current audit resources in the IG community as well as in the current status of agency financial management. Consequently, I do not believe that OMB's audit requirements contained in Bulletin 93-06, "Audit Requirements for Federal Financial Statements," should be expanded at this time. I have been advised that the Bulletin's present requirements are substantially greater than private industry standards and those issued by the Comptroller General, and should be more than sufficient to achieve the objectives of the CFO Act.

OMB, with assistance from other organizations such as the General Accounting Office (GAO), also is responsible for providing training to auditors and financial managers regarding audit requirements, assisting agencies in implementing the financial audit requirements of the CFO Act and assessing whether agencies have sufficient audit resources and are using them effectively to complete the financial statement audits that are required.

**Question 8A.** What steps should OMB take with respect to adverse financial audit findings?

**Answer.** While primary responsibility for correction of audit findings resides with the agencies, OMB clearly has an oversight responsibility in this area. I believe that OMB needs to ensure that agencies are effectively responding to any adverse findings and that subsequent audit reports of uncorrected findings from prior years are the exception, not the rule. OMB 2000 should enable OMB to be more effective in monitoring this area and ensuring agencies take prompt corrective action.

To increase awareness of these problems, OFFM publishes a summary of the more critical audit findings of each agency in OMB's annual Financial Management Status Report and 5-Year Plan. Also included in this document is a financial management performance indicators chart, which presents the number of material weaknesses in internal accounting controls reported by the auditors. OMB included the indicators chart in the President's FY 1995 Budget. This public exposure is increasing the pressure on agencies to resolve adverse audit findings. I support the continued reporting of this information.

**Question 8B.** What role should OMB play in solving agency-specific financial management problems, such as Pentagon unmatched disbursements, IRS duplicate payments, etc.?

**Answer.** I think OMB should play an active role in assisting agencies in resolving financial management problems. With the agency-specific expertise of OMB's RMOs coupled with the technical assistance that OFFM can provide, I believe that OMB will be better equipped than in the past to work with agencies to address these problems.

**Question 9.** What are your views on the relationship between agency CFOs and IGs? What kind of working relationship do you envision as being necessary to ensure the full implementation of the CFO Act?

**Answer.** A constructive and open relationship between an agency's IG and its CFO is crucial to successful implementation of the CFO Act and to the overall financial management of the agency. The IG and CFO need to learn from one another and work together on a variety of technical issues—from financial audits to financial systems. For instance, weaknesses identified by the IG in one year's financial statement audit should be addressed by the CFO in the preparation of the next year's



financial management status report and five-year plan—possibly even with the technical assistance of the IG.

I believe that, in the last two to three years, there has been an increased amount of cooperation and mutual respect as a general matter between IGs and CFOs. These senior officials are crucial to the successful implementation of the CFO Act and achieving the improvements that are needed in financial management.

*Question 10.* To what extent can traditional IG functions be used to facilitate financial management improvements, for example, using IG performance audits to produce required financial data?

*Answer.* As noted in my response to the previous question, IGs and CFOs must work together to produce sound audited financial information. The IGs can make significant contributions to improving financial management by keeping financial integrity and financial management issues in mind as they perform other types of work—including performance audits and inspections. Indeed, one of the strategies the IGs published in their “Inspectors General Vision and Strategies to Apply our Reinvention Principles” is that they would “design more audits and other reviews to meet multiple objectives.”

It is important to remember, however, that in facilitating financial management improvements, IGs should not take on program operating responsibilities. IGs should facilitate improvements by doing independent analysis and offering technical advice to management. Management has and must retain primary responsibility for the Government’s financial management. IGs need to maintain their independence. In this way, management and the IGs can work together—while respecting the differences in their roles—to improve the Government’s financial management.

*Question 11A.* Financial statements are to be audited by agency IGs or by an independent external auditor, as determined by the IG. The Committee on Governmental Affairs, as the authorizing committee for the Inspectors General, is interested in expanding the capabilities and effectiveness of the IG community.

What steps will you take to ensure that the IGs have sufficient resources to carry out their CFO Act responsibilities?

*Answer.* I will support the provision of the necessary resources to the IGs, but this should be in the context of an understanding of how audits can be more efficiently performed. A properly planned and conducted financial statement audit includes an assessment of the internal controls relating to an entity’s programs and activities. The information derived from this assessment should be used in planning audits of programs and activities found to be highly vulnerable. This approach enables auditors such as the IGs to focus available resources on those areas where the audit efforts are likely to produce the most beneficial results and to assess the possible gain to be derived from additional audit work. In this context, agencies should be able to make appropriate financial statement audit funding choices within their Congressional appropriations levels.

*Question 11B.* Will you expand the peer review function that examines IG financial audits?

*Answer.* Peer reviews, when properly performed, not only assess the quality of the audit work performed but also provide constructive suggestions for improving audits generally. *Government Auditing Standards* issued by the Comptroller General require a triennial peer review. I understand that the peer review should include a review of audits of agency financial statements, in addition to a review of program audits. Thus, the question appears to be more how to accomplish this goal, rather than to expand it.

An obstacle to an effective peer review of agency financial statement audits is that, at the present time, some IG staff, particularly at the supervisory level, apparently do not have experience in conducting financial audits. For those instances, I will support providing assistance to IGs from the GAO and/or using the services of public accounting firms in training staff in the conduct of peer reviews of financial audits and in otherwise strengthening the financial statement audit peer review function.

*Question 11C.1.* Under what circumstances should an IG have audits performed by an external auditor rather than developing that capability within the agency’s IG Office?

*Answer.* I believe financial statement auditing should be an integral part of every IG’s overall audit plan. These audits should be used to identify management and program problems that expose the agency to risk of fraud, abuse or program failure. I do not think IGs can effectively discharge their responsibility for assessing agencies’ financial management by simply contracting out financial audits to external auditors. Also, every IG office should have, at a minimum, supervisory personnel experienced in conducting and overseeing financial audits—regardless of whether the actual work is performed by IG staff or external auditors.

Notwithstanding the foregoing, I will encourage the use of external auditors in certain circumstances because they can be a valuable technical resource as IGs develop skills in various areas. For example, external CPAs can assist with audit planning, an area critical to the success of a financial statement audit, and the identification of risk areas requiring more in depth audit coverage. It takes many years to develop efficient and effective audit planning and evaluation skills. The use of senior level CPAs to work side-by-side with senior IG personnel can significantly accelerate the learning process, minimize fees paid to CPAs, and assist in ensuring compliance with professional auditing standards.

External auditors can also be helpful to supplement IG staff resources and, in some instances, conduct the initial annual financial statement audits of an entity which may be complex and difficult to help ensure that the audits are properly planned and executed, and that the "rough spots" are ironed out in the early years. However, I believe that in all instances in which a CPA firm is used, IG personnel should work directly with these auditors to obtain on-the-job training and practical experience in performing financial audits.

Another appropriate use of CPA firms is in the establishment and execution of an internal audit quality control system, something that is required by GAO's *Government Auditing Standards*.

*Question 11C.2.* In your opinion, do agency IGs have the capability to sufficiently test contractor work to assure its quality is acceptable?

*Answer.* A certain level of financial auditing skills and experience are essential before one can assess the quality of another auditor's work. I understand that some IGs have resident supervisory personnel capable of performing qualitative assessments of contractor work, and others do not. A properly functioning peer review process will help identify those IG offices that need more qualified personnel to properly review and assess the quality of contractor work. GAO is very experienced in reviewing the work of CPA firms and may be able to provide assistance to IGs in this area.

*Question 12.* The NPR called for more timely standards from FASAB. How will you help to achieve this goal?

*Answer.* The establishment of accounting standards is a key element in the Federal Government's program to improve Federal financial management, as contemplated by the CFO Act. I fully support the FASAB standard setting process and believe that the current standards setting effort will result in a comprehensive set of accounting standards within the 18-month time frame recommended by the NPR.

I will work closely with OMB's representative to the FASAB and monitor FASAB's progress towards meeting the NPR recommendations and OMB's commitment of resources to the process.

*Question 13.* In what ways could the Federal budget and appropriations process be improved by the financial information and management reforms of the CFO Act? What steps should OMB take to ensure that agency financial information is used in agency budget formulation, OMB budget review, and congressional appropriations?

*Answer.* We need to make sure that the financial information we collect reflects, to the extent possible, the operational needs of program managers. Only then, with some explanation to those managers of the utility of such information, will we begin to integrate this information meaningfully into the budget process. OMB 2000, as explained earlier, should allow us to bring these matters more effectively to the attention of program managers. We also obviously need consistent availability of timely and accurate information on budget, program, and financial results. Existing agency systems for collecting this information, and making it available for decision making and for budget control, need continued improvement, which has already begun as a result of the focus on the audits of agency financial statements.

Other financial reporting reforms fostered by the CFO Act will also benefit the Federal budget process. Audited financial statements can play a significant role in budget execution, and changes in their form and content have been designed to improve the usefulness of the information. Also, program performance information included in the statements will be used to evaluate the agencies' activities. While further improvements in the financial statement disclosures are necessary, it is my understanding that they are under consideration.

Finally, OMB has been working with the Treasury to improve the budget execution reporting process. A project is underway that should ensure that OMB and Treasury information needs will be satisfied through integrated government-wide financial reporting that is accurate, timely, internally consistent, and readily accessible.

*Question 14.* For some time, this Committee has been requesting that the Federal government streamline its hundreds of financial management system, and the Com-

mittee has been told repeatedly that streamlining is being done. In 1987, the Committee was informed that, by 1992, the Federal government would have only 20 such systems—yet hundreds remain. (OMB's own figures indicate that just 30 percent of those systems meet common business and accounting standards.) Please describe your understanding of the status of financial systems reform, and any ideas you have for improving those systems.

*Answer.* Currently, I understand that the CFOs report 804 financial management systems which represent the individual systems supporting various financial management functions of the government. These systems cover a variety of functions including core financial (budget execution, general ledger, payments, receipt and cost accounting), personnel/payroll, travel, inventory, loan, etc. I understand that progress is being made to streamline these systems.

Under Circular A-127, "Financial Management Systems," revised in July 1993, the policy is for agencies to establish and maintain a single, integrated financial management system. I am told that the CFO agencies report that 52% of their financial management systems are now part of one of the 23 agency single, integrated financial management systems as defined under Circular A-127.

Another initiative, begun under Reform 88, focused on consolidating duplicate and redundant financial management systems and asking larger agencies to provide accounting services to smaller agencies under cross-servicing arrangements. Progress is being made with 55 external clients relying on the General Services Administration for accounting, payroll, and other financial services; 34 external clients, in addition to 42 USDA agencies, relying on the Department of Agriculture's National Finance Center for payroll services; the Department of Health and Human Services performing electronic grant payment functions for 34 other organizational units; and the Department of Treasury's Financial Management Service and the Department of the Interior providing various cross-servicing services.

Further, efforts are underway to consolidate and standardize systems through the use of department-wide systems to replace individual bureau systems. Twenty-six percent of the current CFO agency operating systems have been designated as department-wide systems and 57% of systems currently under development are designated to be department-wide systems.

However, I do not believe that looking simply at the number of systems in the Federal government adequately addresses our financial management systems issues. The fundamental issue, as I see it, is that the financial management systems are not able to provide accurate, timely, internally consistent, and accessible financial data to manage the Federal government at all levels. Currently, agencies report that only 65% of their systems meet external reporting requirements and only 48% meet internal reporting requirements.

I support the NPR recommendation that OMB, working with Treasury and the CFO Council, charter a government-wide Budget and Financial Information Steering Group to oversee the stewardship of financial planning and management data for the Federal Government. This will focus both on streamlining the number of financial systems operating as well as improving their quality.

*Question 15A.* Excluding the Treasury Department, the total delinquent debt to the Federal government, as of June 30, 1991, was about \$42.5 billion. This includes \$18.9 billion of defaulted guaranteed federal loans. The previous administration had created a "SWAT" team to attempt to collect the \$6.5 billion which the agencies have referred to the Justice Department for collection.

Will you keep the Justice SWAT team?

*Answer.* I understand OMB is now in a position to build on the activities of the Litigation Information Management Action Team whose report was completed in June 1992. Debt collection at the Department of Justice remains on OMB's High Risk List as a priority for OMB's continued attention. To follow up on the work of the Litigation Information Action Team, OMB has created a Financial Litigation Information Systems Advisory Group. Like the Action Team that recommended improvements in the litigation information systems of the Department of Justice, OMB, Treasury, USDA, and Education Department representatives will advise Justice on systems issues related to the reporting of case status, collections, and resolution.

*Question 15B.* The NPR has had a number of proposals to increase debt collection across government, including greater use of collection agencies and electronic funds transfer. Some of those measures are incorporated in HR 3400. What other proposals do you have to better collect the money legitimately owed the government?

*Answer.* I have been advised that there are two pending debt collection legislative initiatives. A high priority is the passage of the Federal Financial Management Act included in H.R. 3400 which will (i) allow agencies that increase debt collection to gainshare, and (ii) allow Customs and the Social Security Administration to use pri-

vate collection agency services (off-roll individuals only for SSA). A second area of focus is consideration of a bill to streamline the foreclosure process after an agency has determined that foreclosure is appropriate. Each Federal agency will continue to be responsible for setting and meeting default standards that conform with its program objectives. Once a determination has been made that foreclosure is the only viable means of resolving the indebtedness, the bill provides simple and inexpensive procedures for accomplishing foreclosure outside the courts.

## V. INSPECTORS GENERAL

*Question 1A.* The Deputy Director for Management serves as Chairperson of both the Executive Council on Integrity and Efficiency (ECIE) and the President's Council on Integrity and Efficiency (PCIE).

What do you view your role and responsibility to be with regard to the Inspectors General?

*Answer.* OMB's Deputy Director for Management (DDM) is the Administration official who works most closely with the IGs. The DDM chairs the IG councils, provides input on IG appointments, and helps facilitate better communication between the OIGs and agency managers. If confirmed, I would use this role to increase the effectiveness of IG work by: (1) working with the IGs to implement the IG vision statement discussed below, and (2) working with senior agency managers to help them fully understand the resources in their OIGs and the benefits of a constructive, open relationship with their IG.

*Question 1B.* What are your views on the 1993 IG vision statement?

*Answer.* I support the IGs' vision of themselves as "agents of positive change striving for continuous improvement in our agencies' management and program operations and in our own offices." If confirmed, I would pursue implementation of the IG vision statement as one of my primary priorities. While the IGs will continue to be responsible for fighting fraud, waste, and abuse, they will make that work even more meaningful by making recommendations that can prevent future fraud, improve program cost-efficiency, and improve program services.

*Question 1C.* What are your views on the role and priorities of the PCIE and ECIE?

*Answer.* The PCIE and ECIE have two major functions: (1) mounting collaborative efforts to address integrity, economy, and effectiveness issues that transcend individual Federal agencies; and (2) increasing the professionalism and effectiveness of IG personnel throughout the Government. If confirmed, I look forward to working with the Councils on both of these functions.

As to the first, the IGs have tremendous technical expertise and analytical skills that could be used to look at systemic Government-wide issues. In their vision statement, the IGs state they will "identify projects where strong positive change could result from a Government-wide IG review and monitor those projects at the full council level."

As to improving the effectiveness of the OIGs themselves, if confirmed, I will work with the councils on matters such as offering training on how to conduct certain types of audits, explaining to senior managers what they can expect from their IG, and developing additional performance measures for IG work.

*Question 1D.* What support can OMB give the IGs? With regard to OMB organization and staffing, what steps will you take to ensure good communication and working relationships with the IG community?

*Answer.* I have been told that, with the implementation of OMB 2000, OMB works with the IGs in two important ways. The Resource Management Offices (RMOs) are responsible for working with individual IGs to discuss agency-specific issues while the Office of Federal Financial Management (OFFM) retains its responsibility for working with the IGs on IG operational and policy issues that cross individual agencies.

I will support efforts to increase awareness of the RMO staff about the variety of IG resources and to encourage them to establish strong relationships with their agencies' IGs, if they have not already done so. OFFM has begun to assist the RMOs in this effort by providing new RMO staff with training on the resources and tools available in the OIGs and through the Federal Managers' Financial Integrity Act and the CFO Act.

The effective operations of the PCIE and the ECIE discussed above will also play a role in increasing communications and relationships with the IGs.

*Question 2.* Inspectors General, according to the 1978 Inspector General Act, are to be selected without regard to political affiliation and solely on the basis of integrity and demonstrated ability. What mechanisms will you utilize to review IG candidate qualifications—both for presidentially-appointed IGs and designated IGs?

*Answer.* I understand the White House Personnel Office has set up an exhaustive search for exceptional candidates for Presidential IG appointments. I know that the previous DDM was very involved in this process and that, since his departure, OMB's Deputy Director has been interviewing candidates. If confirmed, I would follow in their tradition by being fully involved in the process—meeting with candidates and reviewing their backgrounds in detail in relationship to their demonstrated ability to perform as an Inspector General.

OMB's DDM has a less defined role to play in reviewing candidates for designated Federal entity IG positions. Under the IG Act, those appointments are done under the personnel authorities applicable to each of those entities. OMB has published guidance on implementing the IG Act in this area, including best practices on selecting an IG. If confirmed, I would encourage consultation by any designated Federal entity head about a specific IG candidate or the process to use in selecting an IG.

*Question 3.* A strong, effective Inspector General office is one of the best tools available to ferret out fraud, waste, and abuse. Often, however, IGs find themselves in disputes with agency management about their findings and recommendations. On occasion the IG and management turn to OMB for mediation. What would you see your role to be in these situations?

*Answer.* I understand that these issues have been forced to come to OMB's attention relatively rarely in the past. If confirmed, I would work to prevent such disputes by facilitating better ongoing communication between the IGs and senior Departmental managers. I also think that implementation of the IG vision statement—designed to foster open, regular communication—will tend to prevent some of these disputes. If, however, such situations arise, I would see my role as an impartial mediator, rather than as an advocate for one side over the other.

*Question 4.* The Allegations Review Subcommittee of the PCIE is currently responsible for reviewing all allegations of misconduct by IGs. Yet this subcommittee has no investigative resources, virtually no enforcement authority or staff, and no way to investigate civil charges or widespread allegations of IG misconduct or mismanagement. How can these problems be rectified?

*Answer.* In the absence of a formally established procedure for handling certain administrative allegations against the IGs, the Allegations Review Subcommittee (ARS) receives allegations against IGs and distributes them to the appropriate investigative authorities. However, there is no Executive branch investigative entity with clear authority to investigate administrative allegations against the IGs that do not fall under the jurisdiction of a specific Federal agency.

The ARS has the option of referring those administrative misconduct allegations not under the jurisdiction of a specific Federal agency to the accused IG's agency head for his or her investigation. In these cases, the ARS offers to facilitate the detail of staff from an outside OIG to conduct any investigation on behalf of the agency head.

The PCIE has "brokered" few such investigations in the past ten years. More often, I understand that such administrative allegations referred to the ARS have not been sufficiently or promptly investigated, which was, in part, due to a lack of established procedures and clear authority for the PCIE to act.

The IGs, the Department of Justice, and OMB have been involved in discussions on how to build a better system for reviewing allegations against IGs. I understand that the general agreement at this point is that an executive order should be developed, formalizing the Allegations Review Subcommittee and directing the FBI to investigate those allegations against IGs that do not fall under the jurisdiction of a particular agency. OMB recently shared a preliminary draft of such an order with the FBI and the IGs on the PCIE's Integrity and Law Enforcement Committee. If confirmed, I will participate in the review of this matter.

*Question 5.* What are your views on the level of attention that IG's should give to issues of program effectiveness and to Baking recommendations for achieving improvements in that area—particularly in light of the Government Performance and Results Act? What role should IGs play in auditing and verifying the results reported by programs and in evaluating program performance?

*Answer.* I believe that among the many complex issues that require the IGs' attention—such as program integrity and financial controls—the IGs should not forget the basic question of whether or not their agencies' programs are accomplishing their intended ends. While by far, the greater percentage of IG resources inevitably will be applied to fraud, waste, and integrity issues, the review of program effectiveness should be included as one of the responsibilities of the IGs.

While management has the primary responsibility under the Government Performance and Results Act (GPRA) to evaluate programs, IGs undoubtedly will be asked to assist in auditing these results, as necessary, or to recommend actions in those instances where program measures are showing poor results. At the same

time, under the broad mandate of the IG Act, IGs will continue to perform work on efficiency and effectiveness of Government programs.

## VI. PERFORMANCE MEASUREMENT

*Question 1.* The CFO Act gives OMB the responsibility for overseeing the "systematic measurement of performance." The Government Performance and Results Act spells out in detail OMB's performance measurement mission. What are your views on performance measurement, including its benefits, any potential barriers to successful implementation, and the specific requirements of GPRA?

*Answer.* As a matter of course, most major businesses have long relied on strategic plans, annual business plans, and annual reports to direct the efforts and focus the attention of their managers. GPRA will bring strategic plans, annual performance plans, and annual performance reports to the Federal government in recognition of the fact that no operations can succeed simply by concentrating on how much money is being spent, while ignoring what that spending is producing or generating in return.

Government does not and cannot have the same "profit and loss bottom line" as business. But government should have a bottom line: what are the impacts and effects—on the common welfare, on enterprise and commerce, on natural resources and the world around us—resulting from government spending, and how do these results compare with what was intended and expected. Never before has legislation such as GPRA challenged the Federal government to define its bottom line.

The opportunity that GPRA presents to make government work better was recognized in the first months of this Administration, with the President's strong endorsement of this new law. Subsequently, the Vice President's National Performance Review (NPR) identified GPRA as a key element in the effort to reinvent government. As the first anniversary of its enactment nears, GPRA continues to make eminent sense, and the Administration and OMB are fully committed to bringing about its successful implementation.

If only in its scale, implementation of GPRA will not be easy. GPRA seeks to change the historical way of how the government is run across every Cabinet department and virtually every independent agency. The scope of this change is unprecedented in either business or government. Aside from scale, the participation and support of thousands of Federal managers are critical to making GPRA work. There must be sufficient incentive to assure their involvement, accountability, and risk-taking. In large measure, the incentive will exist only with a lessening of top-down controls and micro-management by other parties.

*Question 2.* The GPRA requires testing performance measurement through the use of pilot projects. OMB has now approved 53 GPRA pilots. What are your views on the selection of so many pilots and on OMB staff capacity to oversee and evaluate them?

*Answer.* I understand that the number of pilot projects resulted from OMB purposefully encouraging every agency to nominate pilot projects, and placing few barriers to becoming designated. This was done for several reasons: (1) to meet the GPRA requirements for annual performance plans in 1997, Federal agencies (regardless of whether selected as a pilot) must use the next three years to develop capacities and experience in measuring performance and setting performance goals; (2) consistent with the Act, pilots were chosen to cover a full range of Federal functions and activities; (3) pilots serve as the leading edge of GPRA implementation, not only as the basis for "lessons learned," but by producing measurement concepts and approaches that can be adopted or adapted by non-pilot agencies; (4) only with a significant number of pilots can one determine whether a particular problem is widespread or singular, or if a success is unique or readily replicable elsewhere. Also, by having pilot projects span numerous agencies and functions, virtually every division and branch in OMB is being given early experience in working with the agencies on setting performance goals prior to 1997.

While on first impression the scale of the pilot projects may appear to be large, the 400,000+ Federal personnel covered by the pilots represent about 10 percent of all the personnel (civilian, military, and Postal Service) in agencies subject to GPRA.

There have been no problems to date in overseeing and evaluating the performance measurement pilot projects, and none are anticipated. OMB expects to concentrate its coordination efforts on those pilots that, because of their size, importance to the development of performance measures for a particular function, or significance as the leading edge of GPRA implementation in an agency, will be critical to carrying out successfully the pilot phase of GPRA.

*Question 3.* What are your views on the relation between OMB's CFO Act performance measurement responsibility and its responsibility inherent in GPRA?

Please include in your answer the relation between performance measurement as a financial management tool and as a broader program management tool.

*Answer.* As discussed subsequently in section VII on program evaluation, performance measurement and program evaluation are essential to an effective allocation of Federal resources.

The CFO Act, by providing for the reporting of performance as part of the annual financial statements, initiated a government focus on performance measurement which has served to build a foundation for the performance measurement provisions of GPRA.

GPRA covers both financial and non-financial measures over a broader range of activities than are covered by the CFO Act. While the annual financial statements include performance measures, much of the significant management information in these statements is contained in the detailed reporting of financial condition, such as assets and liabilities and in the disclosure of financial and related management weaknesses.

The goal should be to produce financial reports that are relevant to the management of Federal programs. One way to achieve this is to assure that the performance measures in the annual financial statements are the same as those in the GPRA program performance reports.

*Question 4.* Given that GPRA calls for agencies to be more responsible for producing results and provides for greater managerial flexibility, what are the implications for OMB's general management oversight role?

*Answer.* GPRA calls for a fundamental transformation in how government programs and activities are administered and managed. The prevailing focus on input is broadened to make for a balanced equilibrium, pairing inputs with outputs and outcomes: what are the effects of this investment, what is being accomplished, and are programs working?

A corresponding shift should also occur within OMB, as OMB staff substantially expand the effort and attention devoted to program execution and program results. As agency managers and officials become increasingly accountable for program performance, GPRA intends they be given more latitude and discretion by OMB, other central management agencies, and the Congress in how resources are allocated and deployed to accomplish the target performance levels.

*Question 5.* The Nixon, Reagan, and Bush Administrations made various attempts—all of which fell short—to establish a Management by Objectives (MBO) process. What are your views on the MBO process and its lessons for current performance measurement efforts?

*Answer.* An MBO process that defines objectives in a way that allows timely and clear determinations of progress in achieving those objectives, and a means for taking effective action when unsatisfactory progress occurs, would capture much of the essence of GPRA. In the past, however, I understand that MBO systems were put in place and then largely ignored. Insufficient attention was given to defining the objectives, progress or activity reports produced little feedback, and perceptions grew that these processes were merely paper exercises. Too many of the wrong objectives generated unnecessary and largely useless reporting.

While similarities exist between some GPRA requirements and an MBO system, there are major and critical differences. The most significant are: (1) in contrast to the internal Executive Branch MBO processes, the GPRA strategic plans, annual performance plans, and annual program performance reports (including the performance measures in the annual financial statements) are widely visible, being produced for the Congress and available to the public; (2) the building of a close-the-loop process through GPRA's requiring of accountability for results and corrective follow-through where performance goals were not achieved; (3) an emphasis on defining and measuring against the goals that managers are using to manage; (4) an ability to set both long-range and near-term goals, and to use the annual performance plans as a dynamic system able to reflect changing circumstances.

*Question 6.* The NPR recommended the use of performance agreements between the President and top Executive Branch officials. What are your views on such agreements, particularly given the high rate of turnover among those top officials?

*Answer.* Performance agreements, widely used in the private sector, are a management tool to help communicate goals and expectations throughout an agency. They are gaining currency in state and local government as well as in Australia, Canada, New Zealand, and the UK. I understand that this Spring six such agreements were signed at Interior, VA, HUD, Labor, GSA and SBA with three others under review and several others in draft. Such agreements help unite political and career employees in understanding and embracing the vision of the mission and goals of an agency.

For example, at HUD, the six priorities of the Secretary's performance agreement are memorialized on a vest-pocket sized card distributed throughout the agency. It is the most public part of a single, integrated management system that incorporates the agreement's six priorities into HUD's budget, customer service plan, management controls, GPRA implementation, community surveys, and performance agreements with assistant secretaries as well. At SBA, too, the Administrator's performance agreement is being translated into agreements with each of the regions to push goals and missions from the top down into operations.

When the mission and measures of these agreements are translated into related performance agreements with agency managers, they help institutionalize managerial accountability. The turnover of political appointees and top officials does interfere to some extent with program continuity. However, effective performance agreements that operate throughout an agency become part of that agency's culture and survive the departure of any one individual or group of individuals as long as the performance measures are still valued by the administration generally.

## VII. PROGRAM EVALUATION

*Question 1.* In a December 1992 GAO Transition series report, "Program Evaluation Issues," the Comptroller General said that "the attention being paid to evaluation issues is inadequate either for managing programs efficiently or for providing Congress with the data necessary for informed program oversight." What are your views on the role played by program evaluation in the operation of Federal activities?

*Answer.* The President has taken on the unprecedented challenge of working toward cutting the Federal budget deficit while increasing investment—which he underscores are both necessary to strengthen the American economy for the long-term. Formal program evaluation could be an important tool in this endeavor, by providing reliable information about which government programs work well and might be expanded or replicated to achieve high returns on investment, and which efforts are comparatively less successful, and therefore should be modified or de-emphasized.

I understand that the government's capacity to evaluate programs—that is, to formally assess, through objective, systematic measurement and analysis, the manner and extent that federal programs achieve their objectives or produce other significant effects—has eroded substantially over the past 10–15 years.

In the late 1960s, many Federal agencies began, on a selective basis, to design, fund and use rigorous assessments of the costs and effects of major programs. By the mid- to late-1970s, however, program evaluation had developed a frayed and somewhat academic reputation. Policy-makers often found evaluation irrelevant to their needs: it was too slow, inconclusive, or answered the wrong questions. Further, in the mid-1970s, some evaluation units were displaced when Inspectors General were created with broad program oversight authority which included performance auditing for economy, efficiency and effectiveness. In the 1980s, funding cutbacks and program restructuring (e.g., block grants) led to the elimination of many remaining agency evaluation staffs and the resources which funded external evaluations.

Today, few agencies perform results-oriented evaluations answering "What does the program accomplish?" "How do program results compare with program goals?" "What works and why?" Process evaluations and related management analyses, such as compliance audits, are more usual. While necessary, such studies do not usually provide sufficient information to support major policy and budget allocation decisions.

*Question 2.* What can you do to improve Federal program evaluation efforts, particularly given OMB 2000 elimination of the General Management Division, which has staffed OMB's program evaluation efforts?

*Answer.* During the previous Administration, I understand that OMB attempted to influence the conduct and use of evaluation positively in a variety of ways. Organized efforts included featuring evaluation in the 1992 and 1993 budgets, issuing evaluation reporting requirements for the first time in OMB's agency budget guidance, and forming an internal task force, the "evaluation workgroup," chaired by the Director and Deputy Director for Management, to discuss the state of evaluation and develop options to improve it.

Specific evaluation efforts (in the sense that they were not OMB-wide, but initiated by particular divisions) had mixed success, in rough correspondence to the evaluation capability of particular agencies and the interest of OMB program division managers. In several instances, however, it was apparently evident that the absence of agency capacity—despite strong OMB impetus—precluded success.



Recently, many staff (and the OMB 2000 effort) concluded that placing the responsibility for OMB's evaluation efforts in a single, separate evaluation branch was not effective. It is my hope that the Government Performance and Results Act and OMB 2000 will help produce better program evaluation by placing a greater value on the production and use of performance and evaluation information to manage programs.

I understand, for example, that OMB's revised budget guidance to the agencies will ask agencies to incorporate evaluation studies into their submissions to OMB and into Congressional justifications.

Even with these positive steps, however, it is important to understand the difficulty of measuring program effectiveness. Evaluation methodologies and standards vary greatly depending on the issue (consider pre-school services for the disadvantaged or nuclear weapons systems). Some areas are relatively easy; others are not—no matter how committed we are.

It is important nonetheless to recognize the necessity to develop such empirical data. If we do not understand how well programs are performing, we will not be able to justify our investments.

*Question 3.* Program evaluation is generally conducted on an ad hoc basis, with no pre-established benchmarks for measuring program efficiency and effectiveness. What is the relation between the reforms contained in the GPRA and program evaluation efforts?

*Answer.* The Government Performance and Results Act sets the stage for a shift of attention from program inputs to outputs, outcomes and impacts. Performance measurement and program evaluation are not competing—but potentially mutually reinforcing—analytic techniques. The former can strengthen the latter because setting measurable performance standards (as required by GPRA) can help define a program's objectives, and thus become part of a program's evaluation.

Evaluation, in turn, can increase the impact of performance measurement and reporting. While performance data can show in raw numbers how well a program is or is not working, it is limited in its ability to explain why. Developed in conjunction with a performance measurement and reporting system, a program evaluation agenda addressing questions such as "Why (and how) is this program achieving such success?" or "Why (and how) is this program falling short?", could be very powerful.

#### VIII. FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

*Question 1.* Since the Integrity Act was passed, Federal agencies have identified several thousand material internal control system weaknesses—most of which have been reported by IGs and GAO, instead of by agency managers as the law requires. What will you do to hold managers more accountable?

*Answer.* I understand that, as in many areas, there are variances among agencies with regard to their identification of internal control system weaknesses. Some agencies have active FMFIA programs and weaknesses are identified by managers. Other agencies are overly reliant on auditors. Changing the culture in the latter agencies has to begin at the top with agency heads clearly communicating to their staffs that the agency must run effectively and efficiently in compliance with laws and regulations.

Through a variety of management tools—performance agreements between the President and his Cabinet Secretaries; Government Performance and Results Act (GPRA) pilot programs; implementation of National Performance Review recommendations; acquisition streamlining legislation—the Administration has begun to address the issue of management accountability. As basic work processes are re-designed, new systems and procedures need to incorporate appropriate management controls. I look forward to working to see that OMB plays a leadership role in this area.

*Question 2.* In spite of the FMFIA, instances of fraud, waste and abuse, and mismanagement continue to grow in terms of number and dollar impact. What more can be done to reduce both the individual incidents of fraud, waste, abuse, and mismanagement, and the related costs to the taxpayer?

*Answer.* The best way to reduce individual instances of fraud, waste and abuse is to achieve systemic reforms. A recurrent but important theme is that we need better data, better systems, accurate financial statements, and improved technical support.

Along these lines, the National Performance Review proposed a sweeping series of reforms in basic management and program operations. The pending procurement legislation is a good example of the type of reform that will reduce waste and mismanagement. Other NPR recommendations are being implemented directly by agencies under their current authorities, by Presidential executive orders, through the

President's FY 1995 budget, and by other legislative initiatives such as Government Performance and Results Act.

I understand that OMB is taking steps to strengthen FMFIA. These include efforts, in concert with the CFO Council, to revise the OMB Circular that implements FMFIA. OMB's policies for the preparation and audit of financial statements expand the auditor's responsibility to review, test, and report on financial internal controls. The Inspectors General also continue to detect and fight fraud, waste and abuse. The semiannual reports that are being transmitted to the Congress this month detail the results of IG operations and report on their successes.

However, no matter how much progress is made, active attention to this area always will be required.

*Question 3.* How will OMB's revised circular on internal controls lead to less fraud and waste, and improve compliance with the Act?

*Answer.* I understand that OMB staff have undertaken a revision of OMB Circular A-123, Internal Control Systems. Numerous discussions have been held with agency managers, IG staff, and GAO, and the NPR recommendations to streamline management controls have been reviewed. Within this context, the staff is proposing a policy that integrates management control into both program planning and the daily operations of agency managers, and recognizes the strong relationships that exist between FMFIA and other administration and Congressional priorities. These include GPRA, NPR recommendations, the President's executive orders to streamline management and to reduce internal regulations by 50%, and the financial statement audits required by the CFO Act.

I am advised that the A-123 revision is intended to offer more flexibility to agency staff in designing their FMFIA programs, to reduce paperwork, to integrate management initiatives, and to make management control a meaningful part of an employee's duties.

## IX. PAPERWORK REDUCTION AND INFORMATION RESOURCES MANAGEMENT

*Question 1A.* The Paperwork Reduction Act of 1980 created OMB's Office of Information and Regulatory Affairs (OIRA) with a mandate to reduce government paperwork burdens on the American public and improve Federal information resources management (IRM).

What are your views on furthering the goals of the Act to reduce government red-tape?

*Answer.* I believe the Paperwork Reduction Act's goal of reducing the burden of government information collection is critical if we are to restore confidence that our government works efficiently and thoughtfully. Individuals, businesses, and State and local governments for years have expressed concern about the burdens imposed by Federal information collection initiatives. Yet, on the benefit side of the equation, accurate, timely, relevant information is essential to rational and effective legislation, regulation, resource allocation, and enforcement—indeed for virtually all public policy decisions. The PRA provides a framework for balancing the costs and benefits of government information activities.

Under the PRA, agencies have the initial responsibility for determining that their information collections have "practical utility" and minimize compliance costs to the public. OMB has the authority to review and approve, for up to three years, information collection requests which meet specified standards reflecting these objectives. I believe this OMB-agency-public partnership is a sound approach that, with continued, effective leadership and sustained attention, can control and reduce government "red tape."

We must also take advantage of technology to further this purpose. I understand that many agencies allow the public to provide information in electronic form. For example, the Customs Service receives almost all commercial filings from import-export brokers in electronic form. Customs recently completed a pilot project in Seattle that showed how electronic information sharing can make a startling improvement in government performance. In the pilot, Customs and the Food and Drug Administration electronically shared information regarding FDA-regulated cargos, allowing those shipments to be cleared in hours instead of days. This reduced processing time has caused brokers to divert cargos from other ports to Seattle to take advantage of the improved customer service. This success is being expanded to 18 additional ports this year, and will ultimately be available throughout the country.

*Question 1B.* Noting that GAO has concluded that information management failures are a root issue in many of the High Risk problem areas, what are the major IRM challenges facing the Federal government generally, and OIRA in particular?

*Answer.* GAO's finding underscores an important issue. The management of information resources, both information and information technology, plays a pivotal role

in administering Federal programs. Unfortunately, agencies often fail to recognize how important IRM is to program management and delivery. As a result, managing information resources does not receive the same attention as personnel or dollars. Changing this perspective throughout the government is a major challenge.

In addition, when dealing with a specific high risk problem, it is important to move beyond the specific solution to address the underlying issue of agency management of information resources. Our goal should be to seek systematic change in agency management practices so that we minimize and prevent, to the extent possible, problems ending up on the High Risk List.

Fostering such fundamental change in agency practice requires a concerted and coordinated effort among oversight organizations for IRM. It means that OMB, GAO, and GSA have to work together to reinforce the importance of IRM to program administration and to help agencies build the management capacity to be successful in applying information technology to key program areas. We need to insure that agencies adopt the new policy principles of the soon-to-be-released revisions to OMB Circular A-130 and GAO's recommended Best Practices.

Beyond dealing with high risk problems, the primary IRM challenge the government faces is to make a successful transition from paper-based to information-age organizations. Shifting information processing to more automated means is essential to making the Federal government more cost-effective and more responsive to the public. The introduction of information technology in major program delivery systems of the agencies can transform many facets of Federal program administration. This potential increase in efficiency is critically important as the government downsizes and strives to maintain and improve services with level funding as required by the Budget Enforcement Act.

Another OIRA challenge is to ensure that agencies use information technology to collect information in the least burdensome manner possible, and that the agencies provide accurate information to all sectors of the public quickly and at reasonable cost. Much of this work in the upcoming year will be to follow up on the cross-cutting recommendations of the National Performance Review for information technology and to support the development of the National Information Infrastructure. Additionally, OIRA will be working with the analysts in OMB's RMOs to ensure that agency activities support these government-wide IRM initiatives.

*Question 2.* What are your views on the role played by information in the Federal government? What are the costs and benefits of government information? What is the government's obligation to its citizens with regard to government information activities?

*Answer.* Federal agencies collect and generate information primarily for the purposes of carrying out their missions, whether it be direct service delivery, such as managing welfare programs, or for statistical and related purposes, such as census information. Stated in the terms contained in the Paperwork Reduction Act, the goal is to maximize the benefits of information while minimizing the costs associated with its collection. In my response to question IX.1(a), I discussed some of the aspects involved in striking this balance.

I also agree with the fundamental philosophy, embodied in the recent revisions to OMB Circular No. A-130, that government information is a public asset. As a general matter, the government has an obligation to its citizens to make information available to the public on timely and equitable terms. It is also necessary to foster the existing diversity of information sources, in which the private sector, along with State and local governments, libraries, and other entities are significant partners. These principles apply, whatever the medium, printed or electronic, in which the information has been collected or stored. The development of public networks such as the Internet will contribute significantly to this diversity.

*Question 3.* What are your views on OIRA's ability to fulfill its statutory mandates under the Paperwork Reduction Act given its exercise of regulatory review power under presidential executive order? Does OIRA have the resources to, and should it, do both?

*Answer.* I believe OIRA can fulfill its statutory mandate under the Paperwork Reduction Act and carry out its regulatory review responsibilities under executive orders. Indeed, the two functions seem to be interrelated because much of the paperwork burden imposed by the Federal government is generated by its regulatory and compliance efforts.

As with most other government offices, OMB and OIRA are downsizing, and finding ways to do more with less. OIRA is focusing its limited but highly skilled resources on the areas where it can have the greatest impact, both in IRM as well as the regulatory review area, and I look forward to working with them to insure that the proper balances are struck.

*Question 4.* The Director's OMB Memorandum No. 94-16 (March 1, 1994) regarding OMB 2000 suggests that OIRA staff may be moved to the RMOs in the future. How would this affect OIRA's ability to fulfill its statutory and E.O. responsibilities?

*Answer.* I am not aware of any plans at this time to move additional OIRA staff into the RMOs. Moreover, as discussed earlier, OIRA's government-wide policy expertise in IRM is enhanced under OMB 2000 by the RMOs' agency-specific knowledge. The combination of the OIRA and RMO staff working together on IRM issues is strengthening OMB's ability to ensure the successful fulfillment of its general responsibilities.

*Question 5.* Many people have criticized the quality of Federal statistics, as well as the management and loose coordination of Federal statistical programs. What are your views on this issue?

*Answer.* I understand that most believe that, even though improvements can and should be made, the Federal statistical system remains one of the best in the world, producing generally reliable, politically unbiased information while protecting the confidentiality of respondents. Nevertheless, I also understand that OMB is working to make improvements in the areas of relevance, timeliness, accuracy, and accessibility.

While I am not an expert in this area, I am aware that many countries have chosen a centralized statistical operation. The United States has chosen a decentralized statistical system, which, while it has been criticized for loose coordination, has several advantages. Locating a statistical unit within its client agency increases the efficiency of communication between the data producers and users and promotes the collection of the most relevant data.

A decentralized system also encourages statistical agencies to improve the quality of their data and to try alternative methodologies without endangering the data quality of the system as a whole. At the same time, independent sources of information help assure the integrity of the system as a whole.

Finally, a statistical unit within a department provides a ready combination of statistical and subject matter expertise that is available to improve the performance of nonstatistical initiatives, and allows a more informed analysis of resource allocation issues within a specific subject matter area. OMB can then propose a better government-wide statistical resource allocation.

However, a decentralized statistical system requires coordination to operate efficiently. This challenge is made more interesting by the variety of authorizing and appropriations committees that oversee Federal statistical agencies. Thus, OMB needs to provide leadership, coordination, and guidance within the Executive Branch for this diverse system and to insure that Federal statistical programs are modified to reflect and record the changes that inevitably take place in our society and our programs. I look forward to learning more about these issues, which are important to the functioning of our economy.

## X. REGULATORY AFFAIRS

*Question 1.* Since 1981, OMB has reviewed Federal agency regulatory activities under the authority of presidential executive orders. Questions have arisen over the propriety and scope of regulatory review, including the extent to which OMB may properly control agency rulemaking decisions, the parameters of presidential supervision of executive branch agencies, the scope of rulemaking authority delegated to agencies by Congress, and public disclosure and accountability. What are your views on regulatory review, its history and its proper role in the regulatory process?

*Answer.* I am advised that Presidential regulatory review has evolved over at least the past 20 years with OMB as the focal point for such review as part of its role in carrying out agency program oversight. The review system as we now know it conducted by OIRA started in 1981 and the legitimacy of executive regulatory review appears to be well established. The importance of regulation as a national policy-making tool would seem to require the President to have a direct means of meeting his Constitutional responsibilities to manage the Executive Branch in this area.

The issues raised in this question are important ones and are areas that have been the subject of great controversy. I understand that this Administration, in drafting and implementing Executive Order 12866, considered these issues and has worked to establish the proper relationships and balances. In addition, since the Order's issuance, the dialogue has continued with affected parties to gather comments and suggestions on the success of the Order in achieving the proper balance. The May 1 report to the President from the OIRA Administrator on the first six months of the Order describes these issues in detail. My sense is that substantial progress has been made in achieving the proper role of review in the Federal regulatory process.

*Question 2.* What are your views on reliance on executive orders to authorize regulatory review, as opposed to placing regulatory review in statute?

*Answer.* I understand that, as a general matter, regulatory review has traditionally been viewed as an executive prerogative to be carried out in a manner best designed to fulfill each President's regulatory philosophy. On the other hand, given the concerns that have arisen from previous implementation of regulatory review, I also understand the interest in legislative authorization of general review procedures—including those for sunshine and accountability.

As discussed in the previous question, it was not envisaged that E.O. 12866 would remain unchanged. On the day he signed that Order, President Clinton also sent a memorandum to the OIRA Administrator, asking her by May 1, to "identify any provisions of the order that, based on your experience or on comments from interested persons, warrant reconsideration so that the purposes and objectives of this order can be better achieved." The May 1 report described a number of issues that may warrant further consideration in the future. Such a process of fine-tuning would be difficult if this Order had been codified in legislation.

*Question 3.* What are your views on the continuation of Executive Orders 12606, 12612, and 12630?

*Answer.* These Executive Orders involve the family (E.O. 12606), federalism (E.O. 12612), and "takings" of private property by the Government (E.O. 12630). I am advised that the Administration is reviewing them and the wide variety of policy and process issues that they raise.

*Question 4.* Cost/benefit analysis, risk assessment, and other techniques are tools for regulatory analysis and review. What are your views on the uses and limitations of such techniques?

*Answer.* Cost/benefit analysis and risk assessment are important to regulatory decision making because of their usefulness as tools for setting priorities, for eliciting broad public comment, and for helping policy makers select among alternative courses of actions. Executive Order 12866 recognizes the utility of such analytic techniques.

The difficulty is to determine how to assess costs, benefits, and risks. This has been the source of vigorous argument for a number of years. As a general matter, it seems to me that, while they may have shortcomings, both techniques are necessary in any serious effort to understand complex public policy issues and to devise and implement effective solutions to problems. However, cost/benefit analysis and risk assessment are not magic formulas for resolving all uncertainty, disagreement, or other difficulties. There are times when it would be unproductive to conduct a detailed cost/benefit or risk analysis. In other situations, the analysis may be less precise than we would wish. And, as with other intellectual tools, we should continue working to improve them and our ability to use them, to allow us to make the best possible policy decisions.

## XI. HUMAN RESOURCES MANAGEMENT

*Question 1.* What are your views on OMB's role in personnel and human resources management?

*Answer.* By statute, the Office of Personnel Management (OPM) is responsible for providing the President with policy advice on personnel matters and with executing, administering, and enforcing civil service laws and regulations.

Nevertheless, sound management of human resources is a critical part of one of the President's important charges to OMB: improving economy and efficiency in government. OMB's role, therefore, is to provide the President advice on personnel policy matters, including pay and benefits, in the broader context of his economic and public policy agenda for the nation as a whole.

In preparing the President's budget, OMB examines the approximately \$100 billion annual cost of pay and benefits of the Federal civilian work force, excluding the Postal Service. For example, OMB's review of agency streamlining plans to achieve the new statutory downsizing targets of the Executive Branch focuses on the agencies' utilization of their limited personnel resources to best achieve their various missions.

OMB also has specific responsibilities in the area of human resources as defined in statute and executive orders. For example, the OMB Director is a member of the President's Pay Agent under the Federal Employees Pay Comparability Act. OMB is also a member both of the National Partnership Council and the President's Management Council, two bodies that will play important roles in reshaping Federal personnel policy.

**Question 2.** What are your views on encouraging more experimentation with classification, pay, and performance systems under the Civil Service Reform Act of 1978?

**Answer.** If carefully constructed, demonstration projects can be very useful to test innovative alternative approaches to classification, pay, and performance management. Success depends, however, on avoiding common pitfalls that often occur with these types of projects, such as:

- Poor project design (not having a clear idea of what is to be done);
- Faulty implementation (failure to act in accordance with the project design);
- Vague and, in some cases, non-existent evaluation measures (Lack of concrete measures means there is no basis for judging whether the experiment worked or not); or
- Inconclusive outcomes (dragging out the experiment without making a final decision).

I support demonstration projects that have a clear purpose, have active management and employee union interest and involvement, and whose success or failure can be assessed through meaningful, measurable outputs. The ultimate question must always be whether the experiment results in measurable improvement, such as greater output, lower cost, enhanced quality, reduced turnover, or improved customer service.

I am aware, however, that the current statutory authority for demonstration projects is severely limiting. The National Performance Review and the National Partnership Council have called for overhauling this authority to eliminate the detailed and time-consuming aspects of the current set-up and approval process. OPM estimates that it takes over 18 months just to get approval to begin. Small agencies are too discouraged by the existing process to participate. Thus, the limits on the number of projects and the size of the work force to be affected by these demonstrations should be reviewed.

**Question 3.** Do you think greater authority should be given to line managers to make human resource decisions such as pay increases, promotions, hiring, etc.? What are the potential benefits and risks of such delegation of authority?

**Answer.** I believe line managers need greater authority over their operations, but we also have to insure that we have made clear to those managers the authority they already have. I understand that line managers have been given increased authority in recent years and that the Vice President's National Performance Review (NPR) has recommended even more. For example, the Federal Employees Pay Comparability Act of 1990 gave line managers the authority to issue recruitment and retention bonuses of up to 25% of an employee's salary. In addition, managers are not bound by the competitive hiring process for hard-to-fill occupations, and line managers already have input on staff evaluations and recommendations on pay increases and promotions. Clearly, however, more can be done.

A basic thrust of the NPR report is that the key to increasing flexibility without compromising accountability is to shift the emphasis from managerial control to managerial support. The NPR's human resources management recommendations carry forward this principle by calling for comprehensive civil service reform in the areas of staffing, classification and pay, performance management and labor-management relations. These changes will allow line managers to hire the best, train them well, provide them with challenging work, and reward them for doing a good job.

The greatest risk comes if we simply delegate the authority but fail to provide the systems and support necessary for performance and accountability. We need to provide training to the managers on their new responsibilities and on how to use the systems and mechanisms that must be provided to support them. Unless we do, real change will not occur or it will be poorly executed. Improvements in this area represent a major cultural change for managers, and agencies must move away from their usual tendencies to over-control and over-regulate themselves.

**Question 4.** An OPM study reported that few agencies link their business planning with human resource planning. What can OMB do to help agencies integrate human resource planning with strategic planning? How can OMB help agencies to better link their human resources and general management capacities with their mission?

**Answer.** It is my understanding that the OPM study and report to Congress, *Investing in Federal Productivity and Quality*, indicated that the use of work force planning by the Federal agencies has been spotty. Nonetheless, there are agencies that have done a good job. Agencies like the Social Security Administration, the Internal Revenue Service, and the Department of Defense, with large work forces and relatively stable missions, have made work force planning an integral part of their budget and program planning process.

OMB's challenge is to ensure that all agencies focus on the relationship of human resource planning and their overall activities, especially in their streamlining plans. This planning forces greater attention on marshalling an agency's declining human and dollar resources to achieve taxpayer demanded improvement in service delivery and mission accomplishment. The Government Performance and Results Act also requires that agency strategic plans include descriptions of the human resources that will be required to meet goals and objectives.

OMB and OPM must therefore design systems, and assist in their implementation, to integrate better all of the resource factors of an agency into both short-term and long-term planning. One of the values of OMB 2000 is the integration of the staff throughout the organization in this important task.

*Question 5.* According to GAO, the Federal government has traditionally viewed its human resources as costs rather than as one of its strategic, valuable resources; therefore, the government has invested comparatively little in training. Do you believe the Federal government underinvests in the training and development of staff? If so, how can the government meet this investment need given current budgetary constraints?

*Answer.* The Office of Personnel Management estimates that the Federal government spends more than \$1 billion on training and development activities for its non-Postal civilian work force (FY 1990 data). Rather than simply devoting more money to training, it could be that we need to analyze whether we spend these funds as we should. Variations and inconsistencies across government in the quality and value of training have been well documented by the Volcker Commission, GAO, and the National Performance Review. Indeed, I am told that anecdotal evidence suggests that, despite the large sum of money spent on training, the government has traditionally not used training and development as effective tools.

To address this issue, I understand that OPM has taken steps to have agencies formally assess their development and training needs in relation to the agency's mission, its organizational goals, and performance expectations. Agencies generally should be able to make better and more appropriate investments in training in the face of tight budgetary constraints. Agencies must plan how and in what areas they will train their staff and reorient them toward achieving their strategic plans. I have been advised that OPM and the Federal Quality Institute are moving aggressively to make available a number of programs to assist the agencies in this regard. Once these actions are completed, we will be able to judge better whether additional funds are needed for Federal training programs.

*Question 6.* What are your views on—and what can OMB do about—the rapid turnover of political appointees in Federal government service?

*Answer.* The rapid turnover in political appointees has obvious costs. Not only do you lose continuity when there is a change in senior management, there may also be a leadership void while a vacancy is being refilled. However, I also believe that some turnover of political appointees is healthy. Many political appointees occupy high-pressure positions that may, over time, lead to less effective leadership. Turnover may also occur as individuals move to other positions within the Federal government, where their earlier government service may give them a broader perspective on how to manage effectively. Also, our political system contemplates turnover in senior positions as Administrations change. The President and the public are often well served by the periodic arrival of new appointees who bring energy and new ideas to their jobs.

Since the turnover of political appointees apparently has varied little from year to year, I do not see any action OMB could take that would change the professional and personal career decisions political appointees make. It is fair, however, to try to insure that those undertaking Federal service are sufficiently interested in and committed to the activities of their positions that they are willing to serve for a reasonable period of time.

*Question 7.* A frequently proposed management reform would involve the delegation of more of the federal government's operational work to professional, accountable career managers. The Volcker Commission recommended reducing the number of political appointees by 1,000 and strengthening the role of federal career managers. What are your views on this issue?

*Answer.* Central policy direction by political appointees is important to ensure that a President's priorities and policies are communicated clearly to those who will carry them out. At the same time, extra layers of bureaucracy, whether political or career, often interfere with the effective operations of an agency or program. As we follow through on the various restructuring initiatives throughout the government, both political and career positions should be examined as we select the most efficient organization to accomplish the mission of an agency or program. As many companies in the private sector have learned, such an organization should be stream-

lined to concentrate resources at the lowest level possible, and to minimize levels of review and overhead. This "flattened" organizational structure provides a better focus on responsibilities and increased accountability.

The number of politically appointed positions which might be eliminated in such a streamlining effort is not known. At present, the senior political leadership positions represent less than one-tenth of one percent of the Federal work force and the number of non-career senior executives is limited by law to ten percent. That does not, on its face, seem to be an unreasonable proportion as a general matter.

*Question 8.* As OPM decentralizes its personnel authority, do you believe OMB will play a greater role in ensuring that certain personnel rules are followed government-wide?

*Answer.* As I have indicated earlier, OPM is the central management agency that now, and in the future, is responsible for enforcing personnel rules. Some of those rules will change, as recommended by the Vice President's National Performance Review and the National Partnership Council. While OPM's approach to its oversight responsibility is expected to change as well, it does not appear necessary at this time for OMB to play a larger role in policing the agencies on these matters.

That is not to say that OMB should not be interested in how an agency uses its human resources and the systems established for their management. OMB staff, whether reviewing budget requests or agency streamlining plans, must ensure that the limited resources available are used prudently and effectively toward mission accomplishment.

## XII. PROCUREMENT POLICY

*Question 1A.* Congress gave OMB's Office of Federal Procurement Policy (OFPP) a leading role in the management of the government's \$200 billion a year procurement program.

What are your views on the major challenges facing federal government procurement and your priorities for OFPP?

*Answer.* The major challenge facing government procurement is to provide quality products and services to agency customers while insuring that the taxpayers are getting maximum value for their dollars. This will require a better management system for the future with fewer people and fewer tax dollars. The \$200 billion that is expended annually through the procurement process is roughly one-seventh of the entire Federal budget. The Report of the Vice President's National Performance Review (NPR) provides the blueprint for streamlining the procurement system and achieving these goals. Significant progress is being made on the legislation to implement many of the NPR recommendations, including the work of this Committee in shepherding S. 1587 through to approval in the Senate. Working for the enactment of procurement streamlining legislation and its implementation will be one of my top priorities for OFPP.

I also will place priority on implementing the procurement streamlining recommendations of the NPR that do not require legislation. Efforts such as expanding the use of electronic commerce in procurement, streamlining the Federal Acquisition Regulations and instituting greater reliance on the commercial marketplace are well underway. In addition, the programs initiated by OFPP to foster greater use of performance-based service contracts, recognize contractor past performance in source selection decisions, and encourage best-value contracting will continue.

*Question 1B.* How will OFPP fulfill its statutory mission given OMB 2000?

*Answer.* While resources within the Office of Management and Budget have been reorganized under OMB 2000, this should provide greater institutional support for OFPP's statutory mission. The integration of some OFPP personnel into the RMOs enhances OMB's ability to address procurement and contracting issues in the larger context of agency budgets and personnel matters. The RMOs responsible for the major procuring agencies such as the Department of Defense, Department of Energy, Environmental Protection Agency and NASA now have procurement specialists working specifically on procurement issues. These specialists will be jointly supervised on a matrix management arrangement by their RMO and OFPP and will work on an OFPP-led government-wide team, in addition to their agency-specific RMO responsibilities.

*Question 2A.* The Administration has supported S. 1557, the Federal Acquisition and Streamlining Act of 1994, which will give contracting officials significant discretion in contracting decisions.

To what extent will you commit to the fostering and development of well trained core of acquisition professionals to ensure proper decision making? What resources will you use to accomplish this? To what extent will the need for this core of professionals be factored into the Administration's goal of reducing the federal workforce?



*Answer.* The development and maintenance of a well-trained and capable core of acquisition professionals is an essential element of the Administration's procurement reform program. I understand that there is already a well-trained professional workforce in place. For example, the number of procurement specialists holding college degrees has increased from 42% in 1982 to 54% in 1992. This increase in college-trained personnel is the direct result of a government-wide effort to improve the qualifications of the procurement workforce. I am confident that we will be able to continue to recruit good people because of the heightened awareness of procurement as a profession and the importance this Administration and the Congress have assigned to procurement matters.

Moreover, the resources within OFPP, its Federal Acquisition Institute (FAI) located in the General Services Administration, and the agencies are all at work to ensure that the greater discretion offered by S. 1587 will be used appropriately. In response to the Defense Acquisition Workforce Improvement Act and OFPP Policy Letter 92-3 on procurement professionalism, both DOD and FAI already have developed expanded, competency-based, training programs on each major segment of the procurement process. The FAI is currently exploring more effective ways of providing training such as the creation of self-directed training courses provided on CD-ROMs. Individual agency training programs are currently being certified under the requirements of the Policy Letter.

The Administration's goal to reduce the workforce will include procurement personnel. However, these reductions will be accomplished, over five years, in an environment of streamlining and simplification of the procurement process. Representatives of the Administration have testified on a number of occasions about the need to streamline the procurement laws as a means of maintaining an effective procurement system while reducing the workforce. For example, the Administration is forging ahead with the development of a government-wide electronic commerce program and other streamlining measures, such as expanded use of the government bank card and the NASA Mid-Range test, that will enable procurement officials to provide better service to customers while using fewer resources.

*Question 2B.* Given the heightened need for a well trained acquisition workforce and for effective policy guidance, how can a reduction in OFPP staff—whose role is to assist in OMB's efforts to provide government-wide policy guidance—be justified?

*Answer.* As I have indicated, the Administration believes that the reorganization of the OFPP staff will enhance OMB's ability to provide effective policy guidance. While a strong group of professionals remains on the OFPP staff, the presence of procurement specialists in the RMOs will reinforce the importance of procurement reform throughout the Executive Branch.

The procurement specialists located in the RMOs will continue to be assigned to many of the important OFPP initiatives. Moreover, as staff of the RMOs, they also will be in a position to monitor the implementation of these initiatives and to measure the impact of these policies on agency programs. This arrangement should strengthen the Administration's ability to institutionalize these important government-wide procurement policies.

### XIII. CONTRACT MANAGEMENT

*Question 1.* In December 1992 and again more recently, OMB released reports which concluded that inadequate management of government contractors has led to billions of dollars in waste, fraud and abuse. What plans do you have for improving contract management?

*Answer.* OMB is presently taking three specific actions to improve contract management. The actions are:

*Civilian Agency Contract Administration.* Pilot contract administration programs are being established in several civilian agencies. These programs will test the feasibility of using the Defense Contract Management Command (DCMC) to administer civilian agency contracts. This approach is being tested in lieu of establishing a civilian agency counterpart to DCMC or assigning additional agency resources to the contract administration function.

In addition, a team of OFPP staff are currently developing a "Best Practices" manual for contract administration activities that will be provided to agencies to assist them in improving their contract administration capabilities.

*Contract Audit Improvements.* The importance of audits to the contracting process was previously reviewed in OMB's December 1992, "Interagency Task Force Report on the Federal Contract Audit Process." OMB has established an Interagency Contract Audit Oversight Committee to oversee the implementation of the recommendations in that report. The Committee will focus on policies and procedures pertaining to audit cognizance, indirect cost rate proposals, and set-

ting indirect cost rates. In addition, the Committee will address funding for audits and audit resources.

*Improved Policy Guidance.* Another OFPP action is the revision of its March 15, 1993, policy guidance on Contract Administration. Presently, OFPP is developing revised guidance in the form of best practices to place greater emphasis on the roles and responsibilities of contracting officers and Contracting Officer Technical Representatives, procedures for voucher review, quick contract close-out procedures, and other appropriate guidance.

*Question 2A.* Most observers of government contracting believe that many of the problems in this field have come from OMB established FTE ceilings that have forced agencies to contract for services even when it was not cost-effective to do so.

How will the President's administrative and personnel cuts affect this issue?

*Answer.* While some would question the premise that FTE ceilings have forced agencies to contract for cost-ineffective service, I understand that there may be at least some instances of this. The President is committed to reducing the size of the government workforce. However, the reductions in FTE will occur over time and, with reengineering and streamlining of agency activities, we should be able to maintain the effectiveness of agency programs. Some cuts could come from contracting out, but the legislation that authorized the FTE reductions requires that replacement of FTE services with service contractors may occur only if justified by cost comparisons.

*Question 2B.* Do you favor providing agencies more managerial flexibility to determine when contracting out is appropriate?

*Answer.* As a general matter, I favor giving agency line managers greater management authority, flexibility and accountability. Therefore, I think additional flexibility within the requirements of Circular A-76 may be appropriate. Revisions to the Circular to make the cost comparison process less burdensome to agencies need to be made, but Government-wide cost comparison guidelines should not be eliminated. The decision to convert to or from an outside contract should be justified, using a consistent set of criteria.

*Question 3.* Federal Agencies are not required to account for equipment furnished to contractors; instead, they rely on contractors to tell them the status of such government furnished equipment (GFE). As a result, the government and its contractors frequently cannot account for billions of dollars worth of GFE. What ideas do you have on how the government might better account for GFE?

*Answer.* The Department of Defense has the most significant amount of GFE and, as reported in the budget, DOD has made enough progress in strengthening control and accountability over property in the hands of its contractors to warrant its deletion from the High Risk List.

DOD has issued new regulations and guidance, such as the DOD Manual for the Performance of Contract Property Administration, and implemented education and training courses. In addition, contract administration was centralized under the Defense Contract Management Command. As a result, progress has included:

- Increased control over contractor access to the DOD Property management system and better monitoring of contractor reutilization and disposal of DOD property; and
- Increased control over contractor use of DOD property.

DOD has agreed to continue its management oversight of contract administration controls without the high risk designation. However, OMB recognizes that there are continuing problems associated with this area and will work with DOD on corrective measures.

*Question 4.* For the first time, OMB this year gave EPA and DOE the authority to convert contractor money to FTEs if a cost savings plan can be shown. Do you believe that OMB should encourage the use of cost comparisons?

*Answer.* I understand OMB's decision to allow contractor conversion to FTEs was premised on the need to strengthen and improve agency management and was not simply a budget or cost comparison exercise. As a result, each agency has approached contractor conversion with its own unique responsibilities and mandates in mind. OMB should encourage the use of cost comparisons, but cost is not always the only relevant factor.

For instance, I understand Carol Browner at EPA developed five criteria to use in assessing which contracts or portions thereof should be converted to the FTEs. Her criteria included: vulnerabilities; clear, distinct, and measurable functions; ongoing need; savings; and practical implications.

The issue of vulnerability is an important one that has been cited by many, including congressional investigators and Inspectors General. Vulnerabilities develop when contractors perform inherently governmental functions; when the Federal Government loses control over data or decision making; or when there is a signifi-

cant loss of in-house expertise that prevents proper contractor oversight and decision making. Vulnerabilities may also develop when there is potential contractor conflict of interest or unauthorized access to confidential business information. In these situations a cost comparison is not necessary to decide whether to bring an operator in-house.

Under the EPA criteria, if there is an ongoing need for a function, and the function is crucial to the Agency's overall mission, it is also a candidate for contractor conversion. The proposal to convert should also involve a clear, discrete and measurable function. In these cases cost savings are desirable, and indeed savings are one of the five key criteria used for contractor conversion decisions.

Another example is recent approval of FTEs for the Department of Energy's Environmental Management Program. For DOE the primary objective in supporting this increase was to improve the overall management control of this large, important program which through rapid growth over the last five years had reached a ratio of contractor employee to federal employee of approximately 21:1. These FTEs are also expected to provide significant cost savings and increased efficiency and accountability.

#### XIV. INTERGOVERNMENTAL RELATIONS AND GRANTS MANAGEMENT

*Question 1.* What are your views on the Federal government's role and responsibilities in funding and delivering services through States, local governments, and non-profit organizations, and on the notion of funding alternatives for financing and delivering services—for example, replacing grant programs with "Challenge Grants"?

*Answer.* I support the goals and objectives of challenge grants, whereby the Federal government establishes broad-based guidelines, objectives, and performance measures while providing State and local governments the flexibility to merge funding streams from different Federal programs.

The Vice President's National Performance Review (NPR) recommended consolidating grant programs, providing Cabinet secretaries with waiver authority, and reducing red tape through regulatory and mandate relief. The NPR reviewed grant consolidation proposals and supported "Challenge Grants" and "Federal-State-Flexibility Grants." The Administration has implemented many of the NPR recommendations in this area including: 1) establishing a Cabinet-level enterprise board to oversee new initiatives in community empowerment, and 2) issuing Executive Order No. 12875 (October 27, 1993, "Enhancing the Intergovernmental Partnership") addressing the problems of unfunded mandates.

I recognize, however, that combining funds from different Federal programs which cross various committee jurisdictions presents a particularly difficult challenge, which we are eager to work with the Congress to address.

*Question 2.* There is much debate about Federal regulatory burdens placed on State and local governments, especially unfunded mandates. What are your views and how would you address this issue as OMB Deputy Director for Management?

*Answer.* I know that the President and Director of OMB are aware of the concerns raised by State, local, and tribal governments about regulatory burdens, especially complying with Federal unfunded mandates. I support the idea that to ameliorate these problems, there must be a partnership that fosters cooperation among all the levels of government.

Within the Executive Branch, I understand this Administration has taken action on non-statutory unfunded mandates. Executive Order No. 12866 requires that, whenever feasible, agencies are to seek the views of appropriate State, local and tribal officials and assess the effects of regulation on their jurisdiction.

Executive Order No. 12875, Enhancing the Intergovernmental Partnership, requires that, to the extent feasible and permitted by law, no regulation should impose a mandate on a State, local, or tribal government that is not required by statute unless either (1) funds are provided by the Federal government to pay the direct costs of compliance, or (2) the promulgating agency describes for OMB: the extent of prior consultation with State, local, and tribal representatives; the nature of their concerns; any written communications received from other governmental entities; and the agency position in support of the mandate notwithstanding those expressed concerns.

These actions are a start toward addressing this problem. In addition, I understand that this Committee has taken action on an unfunded mandates bill, although I also understand that there are some concerns with the bill as amended by the Committee. I look forward to joining others at OMB in working with the Committee and other members of Congress to resolve this issue.

*Question 3.* There appears to be an increased number of requests for, and grants of, waivers to Federal program rules and regulations that allow State and local governments to experiment with new ways to administer programs. What are your views on waivers? What principles would you use to govern approval or denial of waiver requests?

*Answer.* The President, as a former Governor, is committed to providing states and local governments with the flexibility to find better ways to deliver programs. In recent years, there has been an increased interest in waivers on the part of states, particularly in the areas of welfare and Medicaid. This reflects, in part, the fact that the broadest authority for waivers is the research and demonstration authority found in Section 1115 of the Social Security Act.

Well-designed, a waiver should allow us to find better ways for programs to be managed and administered. I think the basic principles OMB has required for deciding whether to grant a waiver appropriately include ensuring that, as a general matter, the demonstrations are cost-neutral to the Federal government and that a meaningful evaluation is made of the program. This will allow us to decide whether the waiver should be given broader application.

## XV. PROPERTY MANAGEMENT

*Question 1A.* In numerous reports, GAO has raised questions about federal property management practices, in particular, the property management activities of the General Services Administration.

What do you believe are the major challenges facing the management of Federal government property, and how do you propose to address them?

*Answer.* The major challenges in the management of government property are to encourage Departments and agencies to:

- Acquire Federal property only when it is cost-effective to do so and when other Federal property is not available,
- Manage property to its highest and best use, and
- Dispose of property in ways that ensure the greatest return to the public.

*Question 1B.* What is your view of OMB's role in property management and its relationship to GSA.

*Answer.* OMB's role in property management is to foster the establishment of policies, procedures and effective monitoring to ensure that Federal agencies manage property efficiently. OMB works with GSA on an ongoing basis to ensure compliance with the Federal Property and Administrative Services Act of 1949. OMB's historical view has been that GSA's primary role should be in the oversight of real property management and that GSA should be involved in the provision of central services only when one or more of the following conditions is present:

- Economies of scale are such that consolidation of services would achieve overall savings not otherwise achievable,
- Unique expertise is required, making it impractical to have multiple providers of services, or
- The procedures required to acquire and deliver the services present such major barriers to entry that replicating the procedures would be wasteful.

*Question 1C.* What are your views on GSA's ability to exercise operational control of federal property? To what extent do you believe that GSA's property management role should be as a direct service provider as opposed to asset management oversight?

*Answer.* It is my understanding that GSA's current operational control—limited to public buildings, excess property, and acquisition of certain types of personal property—encompasses only a small portion of the Federal government's total property holdings (roughly ten percent of space and less than one percent of land). The Departments of Defense, Interior, Agriculture, Transportation and Veterans Affairs each separately manage large holdings of Federal property.

As mentioned earlier, OMB supports GSA's operational control of property only where the following conditions are present:

- Economies of scale are such that consolidation of services would achieve overall savings not otherwise achievable,
- Unique expertise is required, making it impractical to have multiple providers of services, or
- The procedures required to acquire and deliver the services present such major barriers to entry that replicating the procedures would be wasteful.

*Question 2.* Various agencies now manage and dispose of property that has been seized, forfeited, or otherwise obtained by the Federal government. This situation has been criticized for its lack of coordination and its duplication of services. What

are your views on this issue? Should there be a single agency designated to handle the disposition of all acquired property?

*Answer.* Asset disposal authorities have historically been distributed across a number of departments and agencies. This proliferation has occurred in part because of the specific, specialized missions under which agencies acquire property and the unique characteristics of the property they hold for disposal. The widely different types of assets held for disposal include such things as real property (land, buildings, single family homes, commercial properties), loan portfolios, personal property and perishable commodities. While it is true that fragmentation of authorities may have led in some cases to duplication, it is not clear that consolidation of all authorities in one agency would be more cost effective. Generally, specialized expertise resides with the specific agencies (e.g. USDA plant and animal seizure and disposal) that are responsible for disposal.

There are probably some situations where a single "disposition" agency would be helpful. Some agencies have a relatively small amount of assets to manage and sell. Others may have little interest in dealing with these matters. At a minimum, it is important for there to be established clear, government-wide policies and central oversight to ensure that these policies are followed. One approach toward monitoring agency disposal of surplus property would be to require agencies to develop annual plans for identifying surplus property and to report on what is actually disposed of by year's end.

*Question 3.* The government faces potentially enormous future liabilities from hazardous waste contamination at Federal sites—the Congressional Budget Office (CBO) has reported that the government knows very little about the true costs of this cleanup. What are your views on how OMB can improve planning, through OMB Circular A-106 and otherwise, for Federal facility environmental cleanup?

*Answer.* I understand that Alice Rivlin, the Deputy Director of OMB, and Kathleen McGinty, the Director of the White House Office on Environmental Policy, have formed an interagency group of senior Federal officials to develop a comprehensive strategic approach to the problem of Federal facility environmental cleanup. Through the Federal Facilities Policy Group over the next two years, OMB and other agencies with policy and managerial responsibility in this area are working to develop a coordinated strategy for assessing risks, planning cleanup efforts, allocating and managing resources and measuring and improving cleanup effectiveness and efficiency. These efforts will include an evaluation of the potential costs of cleanup. They also will include an assessment of the contribution to effective planning of current reporting measures like those required by OMB Circular A-106, in light of the significantly changed conditions in the 20 years since the Circular was promulgated. These efforts should allow us to begin to gain control over this problem, although complete cleanup with take some time and substantial resources.

*Question 4.* What is your understanding of OMB's role under the 1992 Energy Policy Act with regard to Federal energy management, what actions has it taken to fulfill those responsibilities, and what further steps could OMB take to improve Federal energy management?

*Answer.* Pursuant to the 1992 Energy Policy Act, OMB has worked with agencies to increase Federal spending for Federal energy management activities, improve coordination and oversight and create better incentives for energy saving activities.

*Increase Federal funds:* Although it is not stated directly in the Energy Policy Act of 1992 (EPAct), one of OMB's primary responsibilities is to ensure that adequate funding is included in the President's budget to fund the high-payback efficiency investments that are available within the context of existing budget constraints. As the following table shows, OMB has managed to have a significant impact in this area.

#### DIRECT EFFICIENCY FUNDING AT THE MAJOR ENERGY-CONSUMER AGENCIES

	FY 93	FY 94	FY 95
DOD .....	31	151	272
DVA .....	17	12	10
GSA .....	30	37	50
DOE (In-House) .....	21	26	31
DOE (FEMP) .....	5	16	37
"Big Four" Total .....	104	242	400

*Improve Coordination and Oversight:* OMB has several specific points of responsibility under the Energy Policy Act relating to both oversight and coordination. I understand that for FY 1996, OMB's budget submission guidance will ensure that every agency explicitly budgets for energy conservation spending. OMB staff will

consult with DOE's Federal Energy Management Program about each agency's proposals. OMB is also participating in interagency discussions regarding implementation of a number of the provisions in the Act, including studies of efficiency incentives and financing mechanisms for investments in facility energy efficiency. The Administrator of the Office of Federal Procurement Policy published guidelines on February 15, 1994, to encourage the acquisition and use of energy-efficient products by all agencies. Guidelines will also be published for energy cost accounting and reporting, in cooperation with the Departments of Energy and Defense and the General Services Administration.

*Increase Incentives Within Agencies.* OMB has already built a new incentive into the FY 1995 budget request, with a government-wide provision allowing agencies to retain 50 percent of the measurable savings achieved through energy-savings performance contracts. An interagency workshop is being planned with DOE for later this summer to discuss financing mechanisms and administrative barriers to both direct and third-party investments in energy efficiency.

As to further steps that OMB can take to improve Federal energy management, most of them are in further implementation of initiatives already begun. I have been advised that OMB has asked DOE to investigate establishing an electronic conferencing capability to supplement the discussions that will be held at the workshop in late August. Also, in the budget review process agencies will be encouraged to improve metering so that they can better plan and evaluate their conservation and retrofit activities.

## XVI. FEMA

*Question 1A.* In recent years, there has been a substantial increase in the number of presidential disaster declarations and a rise in Federal relief costs. For example, we have spent well over \$20 billion in Federal disaster payments in the past 5 years.

What can the Federal government do to prepare for disasters and better manage and control costs?

*Answer.* This Administration is committed to preparing more effectively and efficiently for disasters and is exploring options for reducing disaster related expenditures. I understand that the Administration is working closely with the bipartisan committees established in Congress to deal with this issue. Some of the initiatives undertaken by FEMA thus far include:

- Restructuring and consolidation of disaster relief operations to increase efficiency;
- Implementing an automated disaster application process to reduce administrative costs and other automation procedures;
- Emphasizing mitigation to reduce infrastructure repair and reconstruction costs; and,
- Working with the Nation's Governors to establish State disaster programs to reduce the burden on the Federal government.

The Administration also has been carefully reviewing disaster relief options proposed by Congress in H.R. 2873, the "Natural Disaster Protection Act of 1993," and the Senate companion bill, S.1350. These bills look to Federal programs of insurance and reinsurance to reduce disaster costs. An Administration task force, convened in February to examine the issues raised by these bills, is expected to present options to senior policy officials this summer.

*Question 1B.* What are your views on the appropriate role for FEMA and ways to improve the agency's effectiveness?

*Answer.* I understand FEMA Director James Lee Witt has refocused and reorganized the agency. He has emphasized the effectiveness and importance of a comprehensive, risk-based, all-hazard national emergency management system that addresses preparedness, mitigation, response, and recovery. To that end, FEMA and other interested agencies are developing legislative, regulatory, and administrative policies, and organizational plans to improve emergency management and disaster response, and to invigorate the agency with a refocused mission. Effective implementation of these policies and plans should address many of the problems that have plagued FEMA in the past.

## XVII. RELATIONS WITH CONGRESS

*Question 1.* Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

*Answer.* Yes.

*Question 2.* Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if confirmed?

*Answer.* Yes.



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